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FINANCIAL TIMES

World Business Newspaper http://www.FT.com MONDAY SEPTEMBER 28 1998

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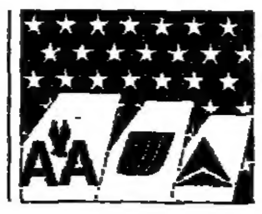

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WORLD NEWS

EU finance ministers still optimistic over growth prospects

European Union finance ministers played down the international economic crisis, insisting the EU was "conspicuous as a pole of stability" at a time of global uncertainty. Meeting in Vienna, they reiterated their optimism about European growth prospects in spite of financial problems in Asia and Russia. Page 20; Pressure over ERM2, Page 3; Philip Stephens, Page 18; Editorial Comment, Page 19

Slovak government defeated
The Slovak government led by Vladimir Meciar's fiercely nationalist HZDS party has suffered a heavy defeat in this weekend's general election. Page 3

Arafat pressed on independence
US Secretary of state Madeleine Albright has asked Yassir Arafat to tone down calls for an independent Palestinian state when he addresses the UN General Assembly. Page 5

Cafe blast injures 40
40 people were hurt when a gas explosion destroyed a packed cafeteria in Palma de Mallorca on Spain's Balearic Islands.

Hurricane hits Gulf coast
Rising winds and driving rains lashed the US Gulf of Mexico coast as Hurricane Georges moved closer to shore. Page 5

Poverty returns to East Asia
Millions of households in East Asia are being pushed back into poverty by the region's financial crisis, according to a World Bank report. Page 4

Bosnian war crimes suspect held
Nato troops in Bosnia have arrested former police chief Stevan Todorovic, a Serb indicted by the international war crimes court for murder and rape.

Israeli girl jailed over PM plot
Israeli Margalit Har-Shefi, who knew of the plan to kill PM Yitzhak Rabin but did not tell the police, has been sentenced to nine months in prison.

Malaysian opposition unites
Twelve Malaysian political parties, human rights groups and non-governmental organisations have formed the Coalition for People's Democracy to demand government reforms. Mahathir crackdown, Page 4

Brussels backs aid for farmers
The European Commission has approved emergency measures to help Europe's meat and dairy exporters blunt the effect of collapsing sales to Russia. Page 3

End in sight to Jones lawsuit
A lawyer for Paula Jones said he was "very optimistic" that a settlement would be reached soon in her sexual harassment suit against President Clinton. Page 5

Rouble faces rocky ride
The rouble is expected to come under further pressure this week amid signs that the IMF is sceptical about Russia's economic policies. Page 3

China in new forex curbs
China has announced stringent new foreign exchange regulations aimed at checking exposure to overseas debt. Page 4

BUSINESS NEWS

LTCB affiliate files for protection from its creditors

Japan Leasing, a non-bank affiliate of Long-Term Credit Bank, the troubled Tokyo-based financial institution, filed for protection from its creditors. The leasing company is estimated to have liabilities of more than Y2,000bn ($14.8bn). Page 20

Goldman Sachs is expected to call a meeting of its executive committee to ratify a likely decision to postpone the investment banking partnership's initial public offering. Page 21; Lex, Page 20

Promodès, French retail chain, bought a 49 per cent stake in Argentine supermarket group Supermercados Norte for $420m. Page 25

Poland is set to sell up to a quarter of its national telecoms operator, Telekomunikacja Polska. Page 26

Telecom Italia, troubled telecommunications group, announced a three-year plan to increase turnover through expanding its international operations. Page 21

KLM, Dutch flag carrier, expects earnings to fall by up to 20 per cent this year because of the Asian economic downturn and a pilots' strike at Northwest Airlines, its US partner. Page 21

British Airways selected Rolls-Royce of the UK to supply engines for up to 32 new Boeing 777 aircraft. The list price of the order is about £580m ($950m). Page 22 and Comment

British Aerospace is one of four European defence groups vying for a £350m ($574m) Greek air defence contract. Page 22

Stockholm is preparing to become one of the world's first bond markets to switch to fully electronic trading of domestic government debt and eurobonds. Page 21

Vertex Pharmaceuticals, Massachusetts-based biotechnology company, reported successful clinical trials for Agenerasa, a drug to prevent the HIV virus replicating itself. Page 24

Nice Systems shares fell 35 per cent in Tel Aviv after the Israeli manufacturer of digital voice and data logging systems issued a surprise profits warning. Page 24

Dickson Concepts, Hong Kong-based luxury retailer, said its first-half results would be substantially below market expectations. Page 25

Air Canada expects to suffer a net loss for the year after absorbing the C$290m (US$192m) cost of a 13-day pilots' strike. Page 25

National Semiconductor, US chipmaker, and computer group International Business Machines are to end a semiconductor manufacturing pact. Page 24

Lex on Goldman Sachs
'Lie back and think of the long term.'
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VICTORIOUS SCHRODER COULD FACE DIFFICULTIES IN NEGOTIATIONS TO FORM STABLE COALITION

Voters oust Kohl in strong swing to SPD

By Peter Norman, Ralph Atkins and Tobias Buck in Bonn

Helmut Kohl, Germany's chancellor, was yesterday voted out of office after 16 years, to be replaced by Gerhard Schröder, whose Social Democratic Party made unexpectedly strong gains in the general election.

While the SPD will be the biggest party in parliament, it was unclear from early computer projections whether there would be a sound working majority for a coalition with the environmental Green party.

Mr Kohl, 68, who yesterday became the first chancellor in Germany's post-war history to be ousted from power at a general election, took responsibility for the defeat "without ifs and buts" and announced he would stand down as chairman of his Christian Democratic Union party at its next congress in November.

The computer projections suggested that the former communist Party of Democratic Socialism would scrape just over 5 per cent of the national vote to enter the Bundestag, Germany's lower house of parliament. That could leave a possible "red-green" coalition with only a slim majority.

Some two hours after polls closed, Mr Schröder said he wanted a "stable majority" to govern. There is the danger of a weak and unstable government emerging from yesterday's poll and coalition negotiations could be difficult.

Latest poll projections

Party	% of vote	No of seats
CDU/CSU	35.0	244
SPD	41.2	266
FDP	6.2	42
PDS	5.0	37
Greens	6.7	47
Others	5.9	
Turnout (estimate)	79.1%	

Source: Forschungsgruppe Wahlen for ZDF television at 20.30 local time. Assuming PDS in Bundestag

The prospects for an SPD-led "grand coalition" with the CDU and the Christian Social Union, its Bavarian sister, dimmed last night after senior figures from the CDU said their party would not seek such a coalition - and the CSU ruled it out.

The SPD was projected to have just over 41 per cent of the vote compared with 36.4 per cent at the previous general election in 1994.

The CDU/CSU had about 35 per cent, down from 41.4 per cent in 1994 and the worst performance by the CDU/CSU since 1949.

The Greens were set to re-enter the Bundestag with about 6.6 per cent, down from 7.3 per cent in 1994. The small Free Democrat Party, the junior partner in Mr Kohl's coalition, also sustained a small loss from 6.9 per cent in 1994 but was assured of being represented in the Bundestag with just over 6 per cent of the vote.

Far right parties failed to clear the 5 per cent hurdle to enter the Bundestag.

An exultant Mr Schroder, 54, pledged that his prime goal as chancellor would be to fight mass unemployment and to overcome "internal divisions" in a nation united by Mr Kohl eight years ago.

Addressing jubilant supporters at the SPD headquarters in Bonn, he said his government would stand for "economic stability, law and order and continuity in foreign policy".

The election had brought a generational change with the SPD winning support from a "new centre" ground in German politics, he said.

However, the final shape of Mr Schröder's policies will depend partly on which party emerges as coalition partner for the SPD. Mr Schröder declined last night to express any preference, saying that the SPD leadership would discuss the matter today after all results are in.

The performance of the CDU and CSU was substantially worse than suggested by most opinion polls in the final week of campaigning.

Mr Schröder was able to improve on his goal of winning at least 40 per cent of the votes.

Tony Blair, British prime minister, was among the first to congratulate Mr Schröder yesterday. According to French sources, Mr Blair has invited his French counterpart Lionel Jospin to Blackpool on Wednesday, along with Mr Schroder.

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Heading for victory: Gerhard Schröder and wife Doris cast their votes Reuters

LTCM fall-out hits another hedge fund

Value of Convergence down 15-20%, investors are warned

By William Lewis and Tracy Corrigan in New York

The fall-out from the near collapse of Long-Term Capital Management, the hedge fund rescued from near liquidation last week, has hit at least one other hedge fund and several investment banks.

Convergence Asset Management, a bond arbitrage fund run by Andrew Fisher, a former Salomon Brothers' star trader, has warned investors that the value of the fund is down 15-20 per cent on the month and just under 30 per cent for the year to date.

"Hurricane Long-Term blew through our markets with such force that many were left homeless," Mr Fisher wrote in a letter to investors on Friday, seen by the Financial Times.

"While our house lost shingles and windows, we're still here," he wrote. "These are by no means normal times so I don't want to predict that we won't suffer more market to market losses before things improve. But I believe, for the survivors, the opportunities are great. We intend on being one of the survivors."

Meanwhile, Standard & Poor's, the US rating agency, has expressed concerns about the worsening outlook for financial institutions. The agency said it had downgraded Bankers Trust, was considering downgrading Lehman Brothers and had revised the outlook for four other securities firms, including Merrill Lynch and Goldman Sachs, from stable to negative.

Long-Term Capital, run by John Meriwether, another former star bond arbitrage trader at Salomon Brothers, is being rescued through the injection of more than $3.5bn by 14 financial institutions. At its height, Long-Term Capital's actual total market exposure reached about $200bn, according to people close to the fund, and currently stands at $100bn. Its notional gross market position, adding together the value of all outstanding derivative and other financial contracts, could be several times that.

Convergence has equity of "a little bit less than" $500m, according to people close to the fund, and has at times leveraged that up to 15 times, more than most hedge funds but far less than Long-Term Capital. Like Long-Term Capital, Convergence specialises in bond arbitrage trading – attempting to exploit differences between bond prices to make a profit. However, people close to Convergence say that, unlike Long-Term Capital, it has stuck closely to its core bond arbitrage investment strategy. "I'm not confident that LTCM lost money in bond arbitrage," one observer said.

Meanwhile, in Washington, Robert Rubin, Treasury secretary, has called for an inter-agency government study of hedge fund operations following the LTCM rescue. The House of Representatives Banking Committee said on Friday it would hold hearings on hedge funds as early as this week.

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Solid case for a cut, Page 16
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Most UK companies favour joining Emu

By Kevin Brown, Industry Editor

Nearly two-thirds of British companies want the UK to adopt the European single currency after the next general election at the latest, the first independent and comprehensive survey of business opinion reveals.

The survey, carried out by MORI for the Financial Times, found that 26 per cent of British businesses wanted Britain to join the system during this parliament, a further 37 per cent favoured entry after the election, and only 23 per cent wanted to stay out permanently.

There was a majority for entry into the euro zone in all UK regions, and among small, medium and large companies. Key business sectors such as manufacturing and financial services were also in favour.

The results will be welcomed privately by pro-euro ministers such as Gordon Brown, the chancellor, because they may help to change public opinion, which remains deeply hostile to British participation in the single currency.

But they will be a severe blow to the Conservative leadership, which has committed itself to opposing British entry into the euro zone for at least 10 years. Pro-European Tories will see the results as a demonstration of the party's increasing isolation from the business mainstream.

Opponents of early British entry will take heart from MORI's finding that fewer than half of businesses think joining the single currency would be good for the economy.

The survey also showed that only 22 per cent of companies have taken any action to prepare for the euro, which will be launched in 11 European Union member states on January 1.

Lord Marsh, executive chairman of Business for Sterling, said he was not surprised by the large majority in favour of entry. "Your poll will spur our people on, and we will force this debate out into the open," he said.

Adair Turner, director-general of the Confederation of British Industry, said the survey showed "a clear preponderance" in favour of British entry into the single currency system after the next election.

Formally, the results will make no difference to the government's approach, which is to hold a referendum on British entry only if it judges that the single currency is working and that participation would be in UK interests.

The Treasury has already begun an education campaign to prepare businesses for the launch of the euro zone, and there is substantial polling evidence that voters are open to persuasion by government and business leaders.

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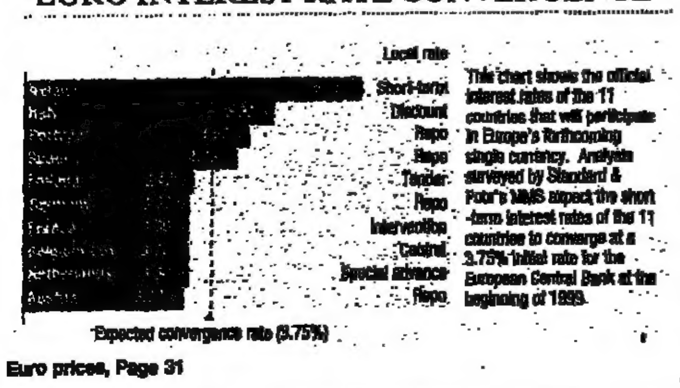
EURO INTEREST RATE CONVERGENCE



This chart shows the official interest rates of the 11 countries that will participate in Europe's forthcoming single currency. Analysts surveyed by Standard & Poor's MMS expect the short-term interest rates of the 11 countries to converge at a 3.75% initial rate for the European Central Bank at the beginning of 1999.

Euro prices, Page 31

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GERMAN ELECTION

KOHL REBUFFED DOGGED POLITICIAN WHO BECAME AN ARCHITECT OF A UNIFIED GERMANY AND AN INTEGRATED EUROPE IS REJECTED BY AN ELECTORATE HOPING FOR A FRESH START

Voters grow weary of their grand statesman

By Peter Norman in Bonn

Helmut Kohl's election defeat yesterday marks an abrupt end to the reign of Germany's longest serving leader this century.

During his 16 years of power in Bonn, Mr Kohl, now 68, became the dominant European statesman of the late 1980s and 1990s. He unified Germany, cemented his country's post-war friendship with France, worked tirelessly for a more integrated Europe and played a key role in smoothing relations between post-communist Russia and leading western democracies.

A towering figure in all senses of the word (his weight is one of Bonn's few real secrets but is thought to be at least 266 pounds or 121kg on a 6ft 3in or 1.93-metre frame), Mr Kohl has been an instinctive wielder of power and was able to lead an often quarrelsome coalition of his own Christian Democratic Union, the Christian Social Union of Bavaria and the small Free Democrat party to four election victories.

Although he would often prevaricate, he could move with remarkable speed and decisiveness to achieve his objectives. His instinct for the possible and his talent for timing were shown to their full when he unified Germany in 1989 and 1990.

Mr Kohl revelled in the role of the elder statesman among the leaders of the industrial democracies and, through a combination of charm and cajoling, secured unparalleled recognition for Germany on the world stage. Despite a lack of foreign languages, he struck up warm and even affectionate relations with statesmen as varied as François Mitterrand of France, George Bush and Bill Clinton of the US, Mikhail Gorbachev of the Soviet Union and Boris Yeltsin of Russia, convincing each in turn that Germany reunited was a trusted partner and no threat to world peace.

But the more he acquired recognition and celebrity abroad, the more difficult conditions became at home. The man who took office in 1982 promising a "turnaround" in economic policies with less state intervention and less deficit spending than the previous centre-left coalition of Helmut Schmidt was eventually to preside over record unemployment, soaring public indebtedness and a gradual relative decline of Germany's international competitiveness. This year's economic recovery, with an expected growth rate of between 2.5 and 3 per cent and a decline in unemployment to around 4m from the January's record 4.82m, came too late to help him.

Mr Kohl's greatest triumph – the unification in October 1990 of West Germany with the former communist east – contributed to his later problems. The economic, monetary and social union of the two countries, that made German political union a success, imposed huge financial burdens on the state.

That he woke up belatedly to the problems was typical of a leader who abhors detail and has a limited interest in economics. On the other hand, his ability to look at issues and events against the broad sweep of history enabled him to exploit the collapse of communism in eastern Europe to bring about his country's peaceful reunification.

His strong sense of history and his deep roots in the strongly Catholic Palatinate, a region close to France where for 200 years every generation suffered the horrors of war, help explain the passion with which he promoted the euro, the single European currency, as a prop for peace and freedom.

His awareness of the devastation perpetrated by and wreaked upon Germany earlier in the century impelled him, as no other contemporary leader, to embed his country in a European Union that surrounded it for the first time in its history with friendly neighbours.

When Mr Kohl became chancellor, he took over a job that he had been in training for since 1959, when he was elected to the state parliament, or Landtag, of Rhineland-Palatinate.

He advanced quickly, first becoming leader of the CDU members in the Mainz Landtag and later prime minister of Rhineland-Palatinate. Most of the attitudes that were to determine Mr Kohl's later political career had become fixed by this time.

Kohl's lack of interest in economics and his disregard for detail proved to be grave handicaps

He was a German patriot when patriotism was unfashionable. He was a strong anti-Communist. But economically he was no right-winger. He believed in the social market economy and a generous welfare state and looked for support among blue collar voters.

He came to prominence in West German politics in 1973, when he was elected leader of the CDU. Acknowledging defeat yesterday, he said he would step down at the next CDU party congress in November. The CDU became the source of his political power and authority. He knew most of its functionaries, their strengths and their weaknesses, their personal and political life histories.

In 1976, he made his first bid for the chancellorship but lost to Helmut Schmidt by a narrow margin in that year's general election. A few weeks later, Mr Kohl quit Mainz for Bonn to become opposition leader in the Bundestag, Bonn's lower house of parliament.

It was a difficult transition and many who knew him then predicted that he would never be chancellor. But he was dogged and determined and struck a chord with the German people, that was still apparent in the public appearances of his campaign for re-election this year.

Mr Kohl's ability to express himself in simple terms has helped him communicate effectively with the German voter and – through an interpreter – with foreign leaders.

In September 1982, the Bonn coalition of the Social Democratic and Free Democratic parties collapsed after 13 years. On October 1, Kohl was elected chancellor by a majority of Bundestag MPs. The coalition of CDU/CSU and FDP was born.

He came to power promising a moral and spiritual renewal of Germany. With hindsight, it is clear that relatively little changed in the 1980s. Mr Kohl admitted last week that he missed an opportunity to reform Germany's generous but costly social security system at that time.

Internationally, however, there were important developments. Mr Kohl's relations with France's Socialist president, François Mitterrand became ever warmer, partly in reaction to the mutual antipathy between Mr Kohl and the British leader Margaret Thatcher, who quickly determined that her German colleague was "not one of us" on economic, social and European issues.

Mr Kohl also showed himself to be a European visionary and in June 1988 set in train the process that was to culminate in agreement on European economic and monetary union.

It was the collapse of communism in east Berlin in 1989 that ushered in the most remarkable year of his career and ensured Mr Kohl's place in history. He always wanted Germany to be reunited and when the Berlin wall fell in November 1989 moved quickly to secure his goal. Mr Kohl reaped the fruits of the good relations he had established with leaders around the world.

He was assured from the start of the support of George Bush, the US president. Through feverish personal diplomacy, he secured Mr Gorbachev's backing. To Mr Kohl's consternation, President Mitterrand was less easy to win over. Mrs Thatcher was the last of the four-power leaders to be reconciled to German unity.

But he pressed on undeterred. In February 1990, he outmanoeuvred the east German leadership and a sceptical Bundesbank in Frankfurt by signalling an economic and monetary union with eastern Germany.

The prospect of having the D-Mark gave a huge boost to support for reunification in eastern Germany. In March, in the territory's first free elections since 1933, pro-union parties won 75 per cent of the votes and the CDU just over 40 per cent. In May, the west and east German governments agreed that East German marks should be exchanged for the D-Mark at a one-for-one rate for wages, pensions and rents. The decision, which was to plunge most of eastern German industry into bankruptcy, was accepted with reluctance by the Bundesbank but pushed through by Mr Kohl as a political imperative. On July 1 1990 the two Germanys were united economically and socially.

The final breakthrough to unification came in mid-July when Mr Kohl met Mr Gorbachev in the Caucasus. It was a quintessential Kohl occasion. He later recalled how the two leaders, Mr Kohl in a cardigan, Mr Gorbachev in a pullover, wandered through the woods and sat by a river to talk "about God and the world" before getting down to business. The upshot was a German-Soviet declaration which paved the way for a united Germany with unrestricted sovereignty and continued German membership of Nato and which promised the eventual withdrawal of Soviet troops from east Germany.

Unification on October 3 was a triumph of *ad hoc* management. His coalition was rewarded with a convincing victory in the all-German elections of December 1990. Forty-five years after the end of the second world war, Mr Kohl was chancellor of a united Germany.

Unification was followed by an economic boom in western Germany, as manufacturers stepped up production to satisfy years of pent up demand in the new *Länder*. In the east, by contrast, output slumped and unemployment soared.

His lack of interest in economics and disregard for detail proved to be grave handicaps. In the 1990 election campaign, Mr Kohl had promised unification without tax increases and later predicted "flourishing landscapes in the east" by the middle of the decade. Both pledges had to be broken.

By March last year, eastern Germany had absorbed net transfers of DM1,000bn ($600bn) from the west without securing a self-sustaining economy. This huge burden ensured that state spending in Germany rose to around 50 per cent of gross domestic product and contributed to a growing cost burden on businesses. The post-unification boom gave way to recession, higher taxes and strains in his coalition.

Mr Kohl still won a fourth election victory in October 1994, albeit narrowly. But the government squandered its first year in office, content to watch the opposition SPD quarrel rather than tackle Germany's looming economic and social problems. When in 1996 it focused on the problems of rising unemployment, soaring social costs and the need to meet the 1992 Maastricht Treaty criteria for the introduction of the euro on January 1 1999, it faced a strengthened opposition.

Mr Kohl's coalition became increasingly prone to internal quarrels and could push through only a few much needed supply-side economic reforms against the will of the SPD, which controlled the Bundesrat, the second chamber in Bonn. When, in April 1997, Mr Kohl announced that he would stand again as candidate for chancellor in yesterday's election, it was from a position of weakness rather than strength.

With hindsight, many of problems that surrounded his campaign stemmed from that decision, which was taken without consulting his party. His announcement, a few months later, that Wolfgang Schäuble, the leader of the CDU and CSU MPs in the Bundestag, should be his successor, failed to bring calm. That statement, again made without consultation, irritated both Mr Schäuble and the leaders of the Bavarian CSU – a remarkable feat as they rarely saw eye to eye on anything. To many in the party, Mr Kohl's handling of his candidacy, his succession and his campaign showed that he was losing his grip on domestic politics.

Problems at home did not prevent Mr Kohl's prestige abroad growing to ever greater heights as he focused his attention on Europe and the euro. But in his final year of domestic politics, Mr Kohl often seemed out of touch. The once supreme manipulator of the political levers of power behaved increasingly like a president rather than chief executive of an administration.

He paid the price yesterday.

POTENTIAL PARTNERS SOCIAL DEMOCRATS MUST CHOOSE BETWEEEN A 'RED-GREEN' PACT OR A GRAND COALITION

Schröder will approach Greens with care

By Ralph Atkins and Peter Norman in Bonn

Gerhard Schröder, the undisputed victor in yesterday's election, faces two main alternatives when he begins work today on forming a governing coalition: either a "red-green" pact with the environmentalist party; or a "grand coalition" with the Christian Democrats led by Helmut Kohl's successor.

A "red-green" pact would take post-war Germany into new territory. The Greens entered parliament in 1983 but this would be their first chance to take seats at the cabinet table.

However, Mr Schröder would give the Greens a limited role. Throughout his campaign, it was clear that – apart from a shared opposition to Mr Kohl – the Social Democratic party's agenda was significantly different from that of the Greens.

In particular, Mr Schröder made clear his scepticism about Green demands for Germany to end its use of nuclear energy as soon as possible. The Greens also backed a significant increase in petrol prices which Mr Schröder, a member of the Volkswagen supervisory board, would resist. There would be clashes too over big infrastructure projects, including the planned high-speed magnetic levitation rail link between Hamburg and Berlin.

Ironically, there may be fewer problems in a "red-green" government over foreign policy – despite the Greens' pacifist orientation and the likelihood of Joschka Fischer, one of the Greens' leaders, becoming foreign minister. Mr Schröder made it clear last night that continuity of foreign policy would be a condition of any deal and Mr Fischer is on the pragmatic, "realo" wing of the Green party.

The difficulties of "red-green", however, might make a deal with the CDU – and possibly its sister party the Bavarian Christian Social Union, more attractive. Such a "grand coalition" – with an overwhelming majority in parliament, would allow Mr Schröder to push through "modernising" economic and social welfare reforms. His likely vice-chan-

Bowing out: Kohl meets the press after voting at his home town of Oggersheim yesterday Reuters

cellor Volker Rühe, defence minister under Mr Kohl, is a pragmatist like Mr Schröder himself. On many broad policy issues, such as foreign affairs or law and order, there are fewer differences between the SPD and the CDU/CSU than between the SPD and the Greens.

But such a "grand coalition" would be difficult to negotiate. During the election campaign, the SPD's pledge to reverse supply-side reforms of Mr Kohl's government highlighted differences in policy on issues that would have to be confronted immediately.

The CDU campaigned on a platform pledging sharp cuts in top rate income tax. The SPD, with its insistence on reversing reductions in sick pay and pension entitlements, fought for greater social justice and a greater commitment to redistributing wealth than returning it to the voters.

Meanwhile, there is likely to be strong resistance to a "grand coalition" from some quarters within the CDU, and particularly the CSU which would fear marginalisation as a political force. The CSU points to the dwindling support of other Christian parties in other European countries which have accepted junior partnerships in grand coalitions.

Mr Schröder will base his decision on a full analysis of last night's result but any announcements today are unlikely to be definitive. It is not impossible, for instance, that Mr Schröder might form a "traffic light" coalition that included the Free Democrats as well as the Greens – although the FDP has ruled that option out.

EUROPE'S VIEW DECISIONS DELAYED

Foreign friends take a fresh look at Bonn

By Robert Graham in Paris and Quentin Peel in Brussels

The prospect of losing Helmut Kohl as German chancellor has forced governments in Europe and across the Atlantic to review their relations with the wealthiest country in the European Union, in spite of the fact that there are few big foreign policy differences with his Social Democratic rival, Gerhard Schröder.

Recent uncertainty over the outcome of the German elections has delayed decisions on a range of big issues on the European agenda, including agricultural reform, and future financing of the EU.

The perceived likelihood of a change in government in Bonn has also put important bilateral relationships, including the Franco-German alliance, and the close ties between Germany and Russia, in limbo.

The French government is preparing a series of initiatives to relaunch the Paris-Bonn axis in the wake of the German elections to ensure it remains the anchor of European stability.

In the run-up to the elections French officials said these proposals were unlikely to vary whatever the outcome of the poll. They insisted that there was a serious need to give new impetus to what has become an "ageing couple" on the European stage where substantial differences have clouded their fundamental desire to guide the introduction of the euro and prepare Agenda 2000, the complex of financial, institutional and agricultural reforms needed to clear the way for EU enlargement to central and eastern Europe.

However, the Socialist-led government of Lionel Jospin has made no secret of its sympathy for the SPD even though Mr Schröder still remains an unproven friend. Mr Jospin has continued to cultivate Mr Kohl, aware in recent times that the outcome could be close.

But Mr Jospin himself is likely to play a bigger role in future Franco-German relations, reducing the scope for initiative by the conservative President Jacques Chirac. The latter inherited the special relationship carved out between Paris and Bonn by Chancellor Kohl with the late President François Mitterrand.

It is this subtle change in the conduct of the key Paris-Bonn relationship which French government officials believe will be the main immediate outcome of the election.

Uncertainties in the relationship and the election outcome left no firm date for the second of the biannual Franco-German summits. Officials believe that this will be held in December but if it takes time to organise a new government, this date may leave little time to begin discussing measures to reinforce Bonn-Paris ties before the end of the year.

This delay could have important repercussions for the political co-ordination behind the launch of the euro and other key elements such as defence co-operation and foreign policy co-ordination in the EU.

In Brussels, the main focus is on the negotiations for Agenda 2000. Those talks have in effect been at a standstill during the run-up to the German election.

The SPD has a much more open mind on reform of the Common Agricultural Policy, although EU officials are doubtful whether that will make much difference in practice. However, a red-green coalition in Bonn would undoubtedly make Germany a much more environmentally conscious – and thus almost certainly less flexible – negotiating partner.

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COALITION-BUILDING RIVAL CLAIMS COULD MAKE FOR DIFFICULT NEGOTIATIONS

Thirty days to put together a new alliance

By Ralph Atkins in Bonn

The German general election yesterday was the high point – but not the end – of the process which will lead to the appointment of a government for the next four years.

Since the second world war, the country has almost always been ruled by coalitions. With the counting of votes completed, Gerhard Schröder, the SDP chancellor candidate, will begin the process of building an alliance with majority support in the Bundestag, or lower house of parliament.

The path of talks is not necessarily smooth. All sides in any new coalition will be seeking a programme for government that reflects, as much as possible, their own campaign manifestos.

The negotiations will not just be about content but also about numbers of cabinet posts and in which department. Chancellor Helmut Kohl's coalition was dogged by rivalry between the market-orientated Free Democratic party and the Bavarian Christian Social Union over the number of cabinet posts each held.

All sides in any new coalition will be seeking a programme for government that reflects, as much as possible, their own campaign manifestos

Under Germany's constitution, the Bundestag has to meet within 30 days of the election. The formal appointment of a chancellor is not always automatic. It is the task of President Roman Herzog to propose a candidate for the Bundestag to approve.

Although there is no obligation on Mr Herzog to select the leader of the largest political grouping in the Bundestag, Germany's post-war presidents have always selected a candidate who has had the backing of a sufficient parliamentary majority. But Mr Herzog could exercise his own authority – for instance if coalition talks are not making sufficient headway. In this circumstance, he could take the initiative and propose a candidate.

If the Bundestag rejects the president's nominee, it may elect an alternative within 14 days. But if the candidate fails to win the votes of a majority of Bundestag members there would have to be another contest immediately. And if the candidate who then takes the largest number of votes cannot command a majority in parliament, the president has the option of blocking his appointment and calling fresh elections.

Once chosen, the newly elected chancellor will then have the right to propose members of his cabinet, who have then to be formally appointed by the president.

The excitement yesterday was not the last word for another reason. The counting of votes has not yet been formally completed. The final official results will come only at 10am on October 14, after exhaustive cross checks by an army of bureaucrats.

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Pressure builds on UK and Sweden to join ERM2

By Michael Smith and Wolfgang Münchau in Vienna

Britain and Sweden are coming under renewed pressure to commit themselves to joining the successor of the European Union's exchange rate mechanism as a precondition for future membership of economic and monetary union.

As European finance ministers and central bank governors put the final touches to the so-called ERM2, several countries questioned the two countries' official decision to stay out of the new exchange rate regime.

Charlie McCreevy, Irish finance minister, said countries that had taken the beat of the early days of the old ERM "might take a jaundiced view of others not going through the disciplines and rules that we did". He added: "It doesn't seem to me very equitable and I am not the only one thinking that."

France also argued that ERM2 membership of all the non-participants of Emu would strengthen the monetary stability of the EU.

At an informal meeting over the weekend, finance ministers and central bank governors spelled out the ERM2 fluctuation margins for Denmark and Greece, which, along with Britain and Sweden, will not be participating in Emu.

Ministers set fluctuation margins of 2.25 per cent of either side of a central parity for the Danish krone, and 15 per cent for the Greek drachma. The central parity will be determined on January 1 next year.

A UK official reiterated the UK government's position that the UK had no intention of joining the ERM2. Britain previously made clear that the UK was unlikely to join the single currency before the next general election, which must be held by 2002.

The UK and Sweden argue that, even if they decide to join Emu, there is no obligation under European law to join the ERM2. However, the European Commission, the European Central Bank and the majority of EU governments feel strongly that a period of ERM2 membership would help smooth the transition to Emu.

Britain faces another potential clash with its European partners over plans to harmonise savings taxes. The Austrian presidency of the EU set a nine-month deadline to complete negotiations to reach a co-ordinated position on withholding taxes on savings and corporation taxes.

Proposals considered by ministers would force EU countries to impose either a 20 per cent minimum tax on EU residents' savings in another state or make the information available to the tax authorities of the resident's home state. The UK says the proposals would damage the City of London, its financial centre, by causing a flight of capital to non-EU centres. The UK is particularly concerned about the effect of a withholding tax on the eurobond market.

Rouble faces further rocky ride

By Anthony Robinson in Moscow

The Russian rouble is expected to come under further pressure this week amid clear signs that the International Monetary Fund remains deeply sceptical about the economic policies of a government which was further weakened last week by the resignation of two senior officials.

Alexander Shokhin, who as deputy prime minister in charge of the economy led talks with both the IMF and a group of 18 foreign creditor banks, resigned shortly after the IMF team left, in protest against the re-appointment of Mikhail Zadornov as the new finance minister. "I did not want to remain in the government as mere window dressing for the west," he said at the weekend.

The government led by Yevgeny Primakov was also hit by the resignation of Dmitri Vasliev, chairman of the Federal Securities Commission and a strong supporter of market reforms.

Mr Shokhin had been unable to persuade the IMF team to disburse the second tranche of $4.3bn which the IMF had originally planned to release in September under the terms of the $22.6bn emergency credit package agreed in July. It disbursed a $4.8bn first tranche before the government was forced to devalue and imposed a 90 day debt moratorium on August 17.

The IMF team merely promised to return for further discussions next month, meanwhile urging the government to "consider urgently the narrow range of alternatives still available and quickly decide on its economic strategy".

Mr Shokhin said it was now unlikely that the IMF would disburse the second tranche before December; it might not even happen until the new year. But he claimed that the IMF team had softened its stance in certain areas.

"We managed to persuade the IMF that we must introduce taxes on exports to raise some cash from inflation and they also agreed to waive the ban on central bank credits to the government in the fourth quarter," he said.

Brussels backs action on food

Emergency measures aimed at blunting effects of collapse in sales to Russia

By Quentin Peel in Brussels

Emergency measures to help Europe's meat and dairy exporters have been approved by the European Commission in Brussels to blunt the effect of a collapse in sales to Russia.

Further action could be agreed today when European Union farm ministers meet to consider the potentially devastating consequences, particularly for beef exporters, of the loss of the Russian market.

They will be warned to expect requests for food aid from Moscow if the situation there continues to deteriorate. In particular, the potato harvest is expected to be "catastrophically low".

The drop in sales to Russia has already had an impact on prices within the EU and could spark fierce competition with other big exporters, such as the US, to find alternative markets, according to a report to be submitted to the meeting.

Before its financial crisis broke in August, Russia had become the EU's second largest market for farm exports, after the US, consuming 41 per cent of beef exports, 32 per cent of pork and 29 per cent of poultry.

According to the report, to be submitted by Franz Fischler, the agriculture commissioner in Brussels, commercial trade in agri-food products to Russia has been completely interrupted, with a few exceptions. Little improvement is likely until a stable rouble exchange rate has been achieved, which remains uncertain.

Commission officials say beef producers have been hardest hit, particularly in Ireland, because they were already suffering from the collapse in internal sales caused by the BSE crisis. On Friday, an emergency measure to increase export subsidies on beef by 8 per cent was agreed to help them.

Prices at Irish cattle marts have dropped by 10 per cent since the Russian crisis broke out in August, and export sales from the country have come to a virtual standstill.

On Thursday, farm officials in Brussels also approved measures to provide support for exporters of skimmed milk powder, and condensed milk. Earlier in the week they agreed to improve storage payments for pork producers, suffering already from oversupply and falling prices.

The farm ministers will be told today that Russia's own agricultural production fell by 36 per cent between 1990 and 1996, and EU exports to the country rose from Ecu1.3bn ($1.5bn) in 1992 to Ecu5.4bn in 1997.

The commission report forecasts that Russia will have to continue importing food for the foreseeable future, either by commercial channels or in the form of food aid. However, no requests have yet been received for such assistance.

Although some farm ministers may be keen to promote food aid as a way of softening the blow to EU exporters, officials say they should seek proof that it would reach those most in need, and that the logistics exist to distribute it. Any food aid would also have to be approved by other countries within the World Trade Organisation.

Slovak opposition trounces Meciar in election

By Kevin Done and Robert Anderson in Bratislava

HZDS deputy chairmen Augustin Marian Hruska (left) and Sergej Kozlik claim narrow success for their party at the weekend But opposition parties will not let the HZDS form a government AP

The Slovak government led by Vladimir Meciar's fiercely nationalist party suffered a heavy defeat in the weekend general election at the hands of an alliance of opposition parties.

The opposition victory opens the way for Slovakia to start to rebuild its relations with the international community and could eventually allow it to return to the fast track of negotiations to join the European Union.

Slovakia is the only candidate from central and east Europe for membership of the EU and Nato to have been rejected from the first round of negotiations because of its dubious democratic record.

According to official preliminary results published yesterday, Mr Meciar's Movement for a Democratic Slovakia (HZDS) narrowly remained the single largest party with 27 per cent of the vote and 43 seats, a big fall from the 35 per cent and the 61 seats it captured four years ago. Of its coalition partners the Slovak National party won 9.1 per cent and 14 seats, while the leftist Association of Slovak Workers fell far below the minimum 5 per cent threshold.

Mr Meciar, the prime minister and strongman of Slovak politics and the man who led the country's split from the Czech Republic six years ago, can only form a government if he is able to splinter the four opposition parties, which have all campaigned heavily to oust him. Putting on a united front, opposition leaders pledged last night to work towards forming a new government and not to negotiate with Mr Meciar.

Mikulas Dzurinda, leader of the centre-right Slovak Democratic Coalition (SDK), which won 26.3 per cent of the votes and 42 seats, claimed victory for the opposition and promised to return Slovakia to the rule of law. "The election shows that Slovakia wants change and wants a new government and an end to confrontation," he said.

The two-day poll was heavily monitored by international observers. Fears that Slovakia would be unable to hold free and fair elections after the bitter political confrontations of recent months appeared unfounded, as all leading parties accepted the results.

The Organisation for Security and Co-operation in Europe (OSCE) said the election was carried out "in an apparently correct and acceptable manner" with no serious incidents.

After four years of increasingly polarised confrontation in which the opposition has accused the Meciar government of flouting the constitution and undermining democratic institutions, Slovaks voted in force at the weekend with an 84 per cent turnout, compared with 76 per cent four years ago.

Talks will begin this week between the SDK and the other opposition groups, the reformed communist Party of the Democratic Left (SDL), the centre-left Party of Civic Understanding (SOP) and the ethnically based Hungarian Coalition party (SMK) on forming a new government.

Together the four parties will hold 93 seats in the 150-seat parliament, enough to achieve the minimum 90 votes needed for a constitutional majority.

A further defeat was inflicted on the government when a referendum on prohibiting the privatisation of six state-owned energy utilities was declared invalid, as only 44 per cent instead of the minimum 50 per cent of the electorate voted.

BEIJING CIRCULAR ACTION TO CHECK OVERSEAS DEBT EXPOSURE

New Chinese curbs on foreign exchange

By James Kynge in Beijing

China announced stringent new foreign exchange regulations yesterday aimed at checking the country's exposure to overseas debt and stemming an alarming outflow of foreign currency.

A circular by the State Council demands stricter supervision by banks of the sale of foreign exchange, and calls for restrictions on the issue of foreign debt.

The rulings come as China is experiencing significant capital flight. Despite a trade surplus of $31bn in the first eight months of the year, the country's foreign currency reserves have risen only marginally to $140bn since the start of the year. Beijing says it will not devalue the renminbi this year, but has not so far extended the promise to 1999.

The black market rate of the renminbi has reached its weakest level this year, an indication of the rising demand for foreign currency among companies and individuals who believe the government may be forced to devalue. In Beijing yesterday, the black market rate was RMB8.9 to the US dollar.

According to the circular, local governments must stop issuing overseas debt and offering financial guarantees to foreign-funded projects without central government approval, the official Xinhua news agency said.

Agreements already made without central approval would be declared null and void. It was not clear if this meant all previous local financial guarantees to foreign projects would be scrapped, or just those approved by local authorities but not yet acted on.

Such guarantees form the financial basis for many foreign-investment projects all over China. Local government guarantees have also been extended for the overseas borrowing of local International Trust and Investment Corporations (ITICs), which include some of the country's shakiest financial institutions.

It was also unclear if the circular, which was published late yesterday, also meant that local government guarantees for ITICs borrowing activities had been rescinded. Because of their foreign debt exposure, ITICs would be particularly vulnerable to a renminbi devaluation, especially when their returns on domestic investments have been hit by slowing economic growth.

The circular appeared certain to make it more difficult for foreign investors to raise capital, especially for smaller projects.

There have also been several as yet unpublished restrictions in recent weeks on foreign currency transactions. These include curtailing renminbi lending by Chinese banks to foreign companies wanting to hedge their currency risk by pre-paying foreign currency loans.

OECD cautious on future of e-commerce

By Guy de Jonquières

Continuing US dominance in the global market for electronic commerce is creating "competitive concerns and some suspicions" in other countries seeking to harness the commercial potential of the internet, the Organisation for Economic Co-operation and Development has warned.

But the OECD says in a report*, prepared for its ministerial conference on e-commerce in Ottawa next month, that much of the US lead reflects lags in the growth of the market in Europe and Asia, caused by high costs, slowness to tackle barriers to competition and conservative consumer attitudes.

The report also doubts that e-commerce will quickly supplant most traditional forms of retailing or sharply reduce consumer product prices. It finds little evidence that products sold on the internet are cheaper than those bought at conventional outlets, although their prices change more frequently.

The OECD says the US generated about four fifths of the estimated $26bn of e-commerce activity last year. Although some forecasts suggest the market could be worth $1,000bn by 2005, the report expects the US share not to fall below two thirds of the total in the near term.

It says high telecommunications costs, slow liberalisation and insufficient transmission bandwidth may continue to inhibit development of e-commerce in Europe and Asia. European consumers were also less used to "distance shopping" than those in the US, where mail order sales per head were more than twice as high.

Although the report says growth of e-commerce will have a big impact in certain sectors, such as financial services, postal services and travel agents, it expects its overall consequences for consumer industries and employment to be limited in the foreseeable future.

Even on the most optimistic forecasts, the value of e-commerce transactions worldwide would be smaller in 2005 than direct marketing sales in the US today. The market would also consist overwhelmingly of dealings between businesses, rather than of retail transactions involving consumers.

"While the appeal of convenience and mass customisation may promote business-to-consumer e-commerce, its success is not assured. It may become just another channel for retailers, like mail order, rather than a new dominant mode of commerce," the report says.

E-commerce was expected to cut distribution costs by 5 per cent and yield efficiency gains of as much as 0.75 per cent of gross domestic product. But these savings would only lead to lower consumer prices if there was fiercer competition.

The report expects the number of jobs threatened by e-commerce to be roughly balanced by those created by growing demand for products and services available on the internet. However, many of the new jobs would be for more highly skilled workers.

* *The economic and social impact of electronic commerce. OECD, 2 rue André Pascal, 75775 Paris Cedex 16, France. Tel: 331-45 24 82 00. Website: www.oecd.org*

Mahathir crackdown fails to stifle *reformasi* call

Iron fist dons red plastic boot-covers in response to Malaysian protesters backing reform demands. **Sheila McNulty** reports

Obituaries of Malaysia's reform movement were being prepared last week.

Its founder, Anwar Ibrahim, the sacked deputy prime minister, had been arrested – with 14 political associates – under the Internal Security Act, which permits detention without trial. Riot police spent hours dispersing the thousands who protested at Mr Anwar's detention, employing tear gas and water cannons, and arrested more than 100 demonstrators.

Mr Anwar had designated his wife, Wan Azizah Wan Ismail, to carry on the movement, but she was threatened with arrest. Police barred media access and regulated visitors to her home, which had been the focal point of the movement. And they banned demonstrations.

It seemed to many the culmination of a far-reaching crackdown that Mahathir Mohamad, the prime minister, began months ago, when Mr Anwar and his supporters first called for reform. Dr Mahathir has tightened his hold over the government and the economy.

He accepted the resignations of the central bank governor and his deputy and then insulated the economy by imposing sweeping currency controls the men had opposed. He fired his only political rival, Mr Anwar, who was both deputy prime minister and finance minister.

Then Dr Mahathir appointed himself first finance minister, to add to his home ministry portfolio. He did not appoint a new deputy prime minister.

When Mr Anwar's supporters said they would stage demonstrations at the national mosque last Friday, the holiest day of the Moslem week, few believed they would find enough people willing to risk arrest to join in, after all that had happened.

But thousands proved that, regardless of how firmly Dr Mahathir has consolidated his power base, it will not be easy to crush the dissent unleashed by the sacking and subsequent detention without charges of the man they had been led to believe would one day be their prime minister.

They resuscitated Mr Anwar's reform movement. When noon prayers ended, thousands of Malaysians pulled out posters of Mr Anwar; wrapped Malaysian flags around their heads; and alternately chanted "Reform", "Mahathir Resign" and "Free Anwar". They unfurled "Mahathir Is Cruel" and "Stop the Slander" banners from the ornate balcony – unprecedented open criticisms of a man who has effectively repressed opposition during his 17 years at the top.

They were on holy territory and believed they were safe. But within 20 minutes dozens of riot police, armed with tear gas and wooden batons, marched to the gates. Shields at the fore, they pulled red plastic boot-covers over their boots – to keep dirt from the mosque – and did what many considered unthinkable: they marched into the inner sanctuary and forced out those left inside.

The move could further anger the tens of thousands of Moslems who appear to be backing Mr Anwar. He built a broad-based Moslem constituency on being a pious and conservative Moslem, and these are his most ardent supporters. But Dr Mahathir is clearly desperate to end the reform movement that continues to irk him and felt he had no option.

This is a country he has run with an iron fist: a place where more than five people cannot gather without a permit and students are barred from becoming involved in politics. The media are tightly controlled and few people have dared over the years to criticise him openly.

That is why Mr Anwar had become such a threat. Several months ago he and his supporters began calling for an end to "cronyism, corruption and nepotism".

It was not long before Mr Anwar had been accused of a catalogue of offences, ranging from sodomy to treason. Dr Mahathir dismissed Mr Anwar on September 2, citing his "low morals". That led to the jailing of two men who pleaded guilty to permitting Mr Anwar to sodomise them.

Regardless of why Mr Anwar was sacked, Dr Mahathir is in a precarious situation. Vital political stability is under threat, at the same time as people are asking whether his unorthodox currency controls are the best way to reverse the recession.

Some countries wonder whether Malaysia should host the Asia-Pacific Economic Co-operation meeting in November, given its attempts to close itself to the world. Apec member countries have already expressed concern about what they see as Malaysia's move toward authoritarianism.

Dr Mahathir has never heeded criticisms from abroad. But the last thing he needs amid the biggest economic crisis of his reign is political discontent among a populace that has long accepted repression in exchange for his efforts to develop and enrich the nation. He insists those demonstrating against him are a minority.

He is right. But they are largely members of the majority Moslem Malay ethnic group and, therefore, cannot be dismissed. The other two main races – the Chinese and the Indians – have long felt repressed by the Malay majority, but they are now staying away from the street rallies, fearing these could develop into racial unrest as happened in neighbouring Indonesia. So it has become a battle among the Malays, who control the civil service, police and armed forces. And that is why Dr Mahathir must contain it.

Mr Anwar's *reformasi* (reform) bumper stickers have been seen far out in the countryside. The Bar Council is urging the authorities formally to charge those detained under the ISA in court so they can defend themselves. And members of the tightly controlled local media are privately expressing frustration at the events unfolding and their inability to cover them objectively.

On Saturday, riot police with shields and tear gas were once more forced to seal off central Kuala Lumpur. They chased thousands of demonstrators down boulevards with water cannon. Shopkeepers fastened their doors. Police beat some of those they caught. Others on horseback chased onlookers away. Dozens were arrested. Once more, there was chaos in the streets.

The old repressive measures that once seemed so effective in putting a lid on dissent no longer seem to be working. Dr Mahathir has ensured he is alone at the top and so will have to fight this battle by himself. Whether he can win, and restore political stability, seems increasingly to depend on how fair are the weapons he chooses to deploy.

Malaysian opposition groups form 'social coalition'

Twelve Malaysian political parties, human rights groups and non-governmental organisations joined yesterday to form the Coalition for People's Democracy to demand government reforms, writes **Sheila McNulty.**

But the scale of their task was made clear from the start, when organisers said the hotel in which they were to hold their opening meeting was told to exclude them.

They were pushed into a small room, where they were permitted only to hold a news conference.

The coalition expressed alarm at the detention without trial of Anwar Ibrahim, the sacked deputy prime minister, and 14 of his associates. They were also concerned about the arrest of more than 100 demonstrators.

"For the time being, it is a social coalition against injustice and against the rape of democracy," said Syed Husin Ali, president of the Malaysian People's party.

"It may well develop into a political coalition."

They hoped that by taking the call for reform off the streets and into a non-confrontational setting they might appeal to the vast majority of Malaysians who do not want political unrest.

But these groups have put peaceful pressure on the administration for years and freely admit that, without the added strain those in the streets are placing on the authorities, they would not get very far.

Police stand guard outside Malaysia's national mosque last week (left) while, inside, protesters shout slogans in support of Anwar Ibrahim Reuters

Tokyo leaders feel betrayed by N Korea

By Michiyo Nakamoto in Tokyo

When it comes to nuclear weapons, the normally subdued Japanese government is uncharacteristically prickly. And when those weapons have to do with North Korea, Japanese irritation becomes all the more pronounced.

Last week, Japan's foreign minister, Masahiki Komura, accused Pakistan of importing its nuclear weapons from North Korea, an act he termed "unpardonable".

His unusually harsh criticism comes at a time when Japan faces a particularly thorny period in relations with its northern neighbour.

The government reacted swiftly and with a vengeance when, earlier this month, North Korea launched what Japan believes was a ballistic missile across Japanese territory. Although the North Koreans claimed it was a failed rocket satellite launch, Tokyo broke off talks to normalise relations with the Stalinist state, halted flights and declared it would not provide food aid to the starving country.

To the dismay of both the US and South Korea, Japan froze plans to contribute $1bn to a programme to build a light-water nuclear reactor to provide North Korea with part of its energy needs in exchange for a promise to halt the development of nuclear weapons.

Japan's resolute stand masks not just worry over the threat that its northern neighbour represents, but also a strong feeling of having been betrayed.

Although the whole of Japan, including the government, was taken by surprise, authorities actually had advance warning from intelligence sources that Pyongyang was preparing to launch a rocket. The two countries do not have diplomatic relations, but Japanese officials did their best to persuade North Korea not to go ahead with the launch.

That North Korea ignored its pleas was particularly galling for members of Tokyo's ruling Liberal Democratic party, who had worked hard in the face of public suspicion to try to improve bilateral relations.

The public is still outraged by a series of kidnappings of Japanese citizens by North Korean agents. Also still fresh in memories is another missile launched by North Korea in 1994, which landed in the Sea of Japan.

Against that background, any unfriendly act by North Korea triggers a strong reaction in Japan, where Japanese people of Korean descent have been threatened with violence or death as a result of last month's missile launch.

The LDP has a long history of top-level missions to North Korea. From the late Shin Kanemaru, the legendary LDP "kingmaker", to Hiromu Nonaka, the current chief cabinet secretary, many high-ranking LDP politicians have paid their respects to North Korean leaders.

After all their efforts, LDP politicians might have expected a little goodwill from North Korea.

What they got instead was a breakdown in talks in Beijing to normalise relations. Then came the missile – and now, evidence that North Korea has exported weapons to Pakistan. For Japanese leaders, that may just have been the last straw.

Victoria hit by gas shutdown

By Gwen Robinson in Sydney

Industry and commerce in the southern Australian state of Victoria have been crippled and households left without power after gas plant explosions which killed two and seriously injured eight people on Friday.

Toyota, the state's biggest carmaker, and Amcor, the paper and packaging manufacturer, were among large companies which closed factories down at the weekend and laid off part-time workers.

Gas supplies to Victoria, including Melbourne, its capital city, depend almost entirely on three plants operated by Esso, a subsidiary of Exxon of the US. The Longford complex, in the state's south-east, processes all the gas produced in Bass Strait between mainland Australia and the southern island state of Tasmania in a joint venture with Broken Hill, the Australian mining and energy group.

At least five explosions and several fires ripped through Esso's Longford 1 plant, forcing closure of all three plants. The cause is not yet known. Robert Olsen, Esso's Australian chairman and managing director, yesterday promised a "penetrating investigation" and said the company would co-operate fully with any judicial inquiry.

Some state business leaders said last night they were considering launching a class-action lawsuit against Esso and the Victorian government for compensation for business losses.

State officials warned last night that supplies might not resume for at least one week.

Poverty 'coming back to E Asia'

World Bank report will tell ministers' meeting about social consequences of region's financial crisis

By Robert Chote, Economics Editor, in Washington

Millions of households in East Asia are being pushed back into poverty by the region's financial crisis, threatening to reverse decades of achievement in poverty reduction and human development, according to a World Bank report to be presented to finance and development ministers next week.

"What began as a financial crisis has also become a fully fledged social crisis," the report argues. "Unemployment already has reached record levels, real wages have plummeted, prices for essential commodities have risen and social services have been cut back."

The social consequences have been alarming, ministers will be told. "Households are coping by rationing food, pulling children out of school, and in some cases resorting to illegal activities. Violence, street children and prostitution are all on the increase and the social fabric is under increasing strain."

The Bank and the International Monetary Fund are already being urged to take more account of social factors when they give economic advice to countries facing severe financial problems. Gordon Brown, the UK chancellor, is pushing for a code of conduct on social policy, which would lay out broad guidelines to help countries minimise the damaging consequences for the poor of economic downturns.

The code could lay down principles for welfare systems and social safety nets, as well as making it clear that education programmes for vulnerable groups should be protected when government spending has to be reduced. Mr Brown would like the Bank to evaluate social policy more regularly and systematically in developing countries, perhaps by expanding the scope of its existing "country assistance strategies".

This approach receives implicit backing from a new analysis of the Asian crisis by Oxfam International, the Washington-based development lobby group. It argues that the response by the international financial institutions has been flawed because the Bank has been left trying to address the social problems created by the IMF's macroeconomic prescriptions.

"Treating poverty reduction as an appendage to economic reform is inconsistent with the policy commitments of both agencies, as well as being inimical to the interests of the poor in East Asia," Oxfam International argues.

In its report to the "development committee", which meets during the institutions' annual meetings next Monday, the Bank warns it is essential to restore robust economic growth in the crisis countries. It calculates that if economic activity drops 10 per cent in Indonesia, Thailand, Malaysia and the Philippines, the number of poor people there will double to more than 90m. This follows two decades in which the incidence of poverty in East Asia dropped from 60 per cent of the population to 20 per cent.

The Bank sets out several measures to restore sustainable growth. Fiscal policy should be used to boost spending in the economy to compensate for weak export demand, while interest rates should be reduced further as exchange rates strengthen. In addition, more should be done to recapitalise shattered banking systems and speed corporate restructuring. The business environment could also be improved by greater transparency and better corporate governance.

Countries also need to boost investor confidence, so as to sustain high savings, attract overseas finance and coax back flight capital.

On social policy the Bank recommends targeting government spending on activities that help low-income groups, such as rural road projects. Vulnerable groups would also be helped by targeted subsidies, benefits for the unemployed and well designed public employment programmes.

The IMF is sensitive to accusations that its macroeconomic policies hurt the poor, especially as critics have argued that its prescriptions have also done more harm than good to financial market confidence. It points out that interest rates have now fallen again in the crisis countries, but the Bank believes "the economic and social aftershocks of the crisis are still unfolding, and will be more severe than anticipated".

UN PALESTINIAN LEADER'S ADDRESS

Arafat under pressure on independence

By Judy Dempsey in Jerusalem and Laura Silber in New York

Madeleine Albright, US secretary of state, has asked Yassir Arafat to tone down calls for an independent Palestinian state when he addresses the United Nations General Assembly today.

Mr Arafat, president of the Palestinian Authority, insists he will unilaterally declare an independent state next May, in the belief that this is his only remaining bargaining chip to force Israel to hand over West Bank land and put the peace process back on track.

Israeli diplomats yesterday warned that if Mr Arafat pushed ahead with the declaration of a Palestine state it would be in violation of the peace accords.

Palestinian officials now believe such a declaration may backfire since Benjamin Netanyahu, Israeli prime minister, could fulfil his threat to declare the Oslo 1993 and 1995 peace agreements null and void.

This would lead to a precarious existence for the new Palestine, with ill-defined borders and no agreement with Israel on water, refugees and tax transfers. Above all, it would be a state without east Jerusalem as its capital.

Although such a move by Mr Netanyahu would be highly unpopular at home, the prime minister senses he has the upper hand over Mr Arafat, who won international support for accepting a US plan in which Israel would hand over 13 per cent of West Bank land to the Palestinians as part of the second troop pullback from the West Bank.

Israel first rejected the US plan but recently accepted modified proposals, placing 3 per cent of the 13 per cent in an ill-defined nature reserve and demanding that the Palestinians do more to combat terrorism.

Israeli diplomats yesterday said Israel would remain responsible for overall security in the nature reserve – and both sides would be banned from building settlements on the territory. "It will be just for animals and plants," said one diplomat.

Mr Netanyahu's new bargaining chip is supported by the US in the sense that Washington does not relish confronting Arab states next May which might recognise Palestine if the peace process remained deadlocked.

Mr Netanyahu yesterday told CNN: "Israel is close to fulfilling its obligations. The Palestinians have yet to assure us that they will fulfill their obligations under the Oslo treaty."

Israeli diplomats indicated that yesterday's meeting between Mrs Albright and Mr Netanyahu did not yield "too much" but said they were waiting to hear Mr Arafat's speech today.

If agreement is reached for the delayed pullback, the Palestinians have said they will require watertight assurances from Mrs Albright that, in return for reconsidering any postponement of an independent state, there will be no backsliding by Israel. They want the troop withdrawal carried out within a tight timetable along with the operating of an airport and port in Gaza, the establishment of a safe corridor between the West Bank and Gaza and the release of political prisoners held by Israel.

These issues were all agreed by Israel and the Palestinians in the 1993 Declaration of Principles and in the 1995 Interim Agreement.

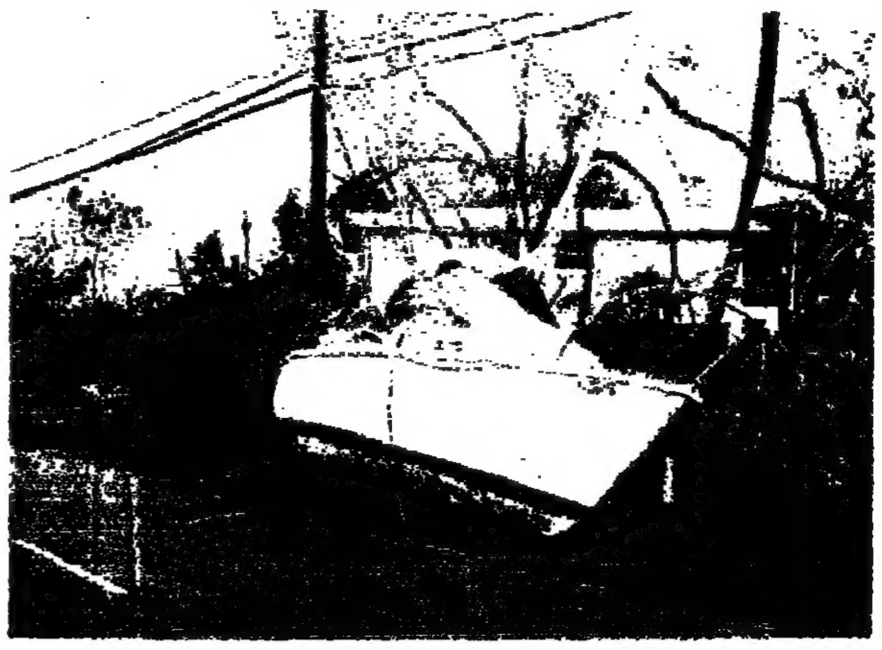
In Washington today President Bill Clinton will meet Mr Netanyahu and Mr Arafat separately.

Hurricane hits coast

Rising winds and driving rains lashed the US Gulf of Mexico coast yesterday as Hurricane Georges moved closer to shore, forcing hundreds of thousands of people to evacuate the region, Reuters reports from New Orleans.

The storm hit the Florida Keys, damaging homes and causing floods, at the weekend. The yacht in the street (right) was one victim, but the region escaped deaths or serious injuries.

Yesterday, a hurricane warning was in force from Morgan City, Louisiana, to Panama City, Florida.



Battles still rage as the control of key internet function remains unresolved

Louise Kehoe on this week's deadline for funding of a crucial aspect of the web

US government plans to hand over governance of vital functions of the internet to the private sector on Thursday are mired in bitter battles among technology and business interests in the US and Europe that threaten to disrupt administration of the global computer network.

At issue is control over the registration of internet addresses, such as ft.com, and the computer systems that maintain global directories of internet addresses, giving internet users access to web sites and enabling them to send electronic mail.

With the deadline looming for US government funding for the internet address systems to end, numerous interest groups appear far from reaching a consensus on the constitution and powers of the tentatively named Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit-making corporation that is to govern the internet.

"The process is in chaos," said Gordon Cook, publisher of the Cook Report, an online newsletter that has chronicled the in-fighting.

After nearly two years of broad debate, the "elders" of the internet – technologists who helped to create the computer network – are deeply divided. Business interests are at odds with the technologists. Public interest groups are weighing in. International groups are also taking a stand.

Although the issues are arcane, the debate is of broad concern to businesses, governments, public and public sector groups. Internet addresses have become valuable assets. The smooth running of the global data communications network is also now vital to the many companies that use it, as well as those that offer internet access or provide data communications services.

Among the main protagonists is Network Solutions, a Virginia company that, under contract to the US government, registers coveted internet addresses with top-level domain names such as com or net or org. Its exclusive role is deeply resented by the "old guard" of the internet and by European interests.

Leading the elders of the internet is Jon Postel, a bearded engineer in charge of the Internet Assigned Numbers Authority (IANA), a US government-funded organisation that currently runs the computers that handle internet addressing. IANA would be subsumed by ICANN and Mr Postel appears determined to maintain his role.

Attempting to find consensus among these warring tribes is Ira Magaziner, senior policy adviser to President Bill Clinton on internet issues. Mr Magaziner said on Friday he remained confident all sides would come together by the midweek deadline. There was "feverish activity" under way to resolve disputes, he said.

'Feverish activity' under way to resolve disputes by deadline

European officials seem to have been convinced. In Brussels last week, senior European Union officials were raising alarms, calling for "urgent consultations" with the US and expressing concerns that the privatisation process was in jeopardy. Yet by the end of the week EU officials in Washington said they were "not too pessimistic", following assurances from White House officials.

An attempt by NSI and Mr Postel to reconcile their opposing views has backfired. Earlier this month, they drew up a joint set of bylaws and articles of incorporation for ICANN. The documents were a "final consensus draft", Mr Postel and Gabe Battista, NSI chief executive, said.

Yet far from building consensus, the "final draft" sparked protests from all sides. The Electronic Frontier Foundation (EFF), a civil liberties group, has raised vociferous objections. The proposed plan "would threaten both the democratic governance of the internet and basic human rights of free expression and due process on the internet," EFF charged.

Mr Magaziner, meanwhile, suggested, perhaps only half in jest, that if all else failed the protagonists might be locked in a room together until they reached agreement. It may come to that.

CLINTON SEXUAL HARASSMENT CASE

Jones lawyer 'optimistic' on settlement

By Nancy Dunne in Washington

A lawyer for Paula Jones yesterday said he was "very optimistic" that a settlement would be reached soon in her sexual harassment law suit against President Bill Clinton as a deal to end the case "benefits everybody".

News of the negotiations emerged on Friday as new polls showed the president rebounding from the effects of the Monica Lewinsky sex scandal. Although the Jones case has been dismissed by an Arkansas judge, it is under appeal and could be reinstated.

The appeals court is dominated by Republican judges, who may well take into consideration Mr Clinton's at-best-fudged testimony when he denied having sexual relations with Ms Lewinsky. If the case was sent back for trial, the president could find himself subject to a contempt citation and a large penalty.

The Paula Jones case is central to the impeachment effort under way in the House of Representatives' judiciary committee. If it were not for the case, the president would not have had to discuss his sex life under oath, which has opened him to allegations of perjury and cover-up.

In his testimony to a Washington grand jury, made public by the House last week, the president described Ms Jones case as "a bogus suit", paid for by his political enemies. He has denied exposing himself to Ms Jones in a Little Rock hotel room, after she allegedly rejected his advances.

Donovan Campbell, Ms Jones leading lawyer, yesterday said the president "seems to be bitter and twisted about the law suit". Although Ms Jones has dropped a demand for a presidential apology, Mr Campbell said a large settlement – reportedly he is seeking $1m – would be seen as an admission of the president's guilt.

Mr Clinton has good reason for wanting to end the Paula Jones matter. Her lawyers are preparing a request to the lower court to be filed this week that the president be held in contempt for perjuring himself in the case.

The White House has been presenting the Paula Jones case as "a civil case that was dismissed". If the case is resurrected, Mr Clinton loses that argument and could find himself once again testifying under oath. Furthermore Ms Jones has been given new credibility since the president's admission of a sexual relationship with Ms Lewinsky.

The Paula Jones case has other dangers. At least one woman who turned in an affidavit denying sexual advances by the president, is said to be prepared to recant. Ms Jones has good reason to settle. She and her husband are out of work. She owes her lawyers hundreds of thousands of dollars.

President vows to veto tax cut

President Bill Clinton is vowing to veto an $80bn tax cut passed by the House of Representatives on Saturday to provide relief for farmers, married couples, small investors and pensioners, **writes Nancy Dunne.**

The plan was "great politics" but bad policy, said the president. He called on Congress to "reserve the entire surplus until we have seized this historic opportunity to save social security".

The Democrats believe the uncertain future of social security will have more resonance with the voters in the autumn mid-term polls.

LABOUR PARTY CONFERENCE IN BLACKPOOL PRIME MINISTER PROMISES NO RETURN TO 'TAX AND SPEND'

Blair gives pledge on low tax levels

By Robert Peston, Political Editor

Tony Blair, the prime minister, yesterday suffered the first setback in his campaign to modernise the ruling Labour party when ordinary members elected four left-wingers to the party's national executive committee.

But in a robust response, he said he would not be deterred from pursuing low tax, anti-inflation policies.

In an informal question and answer session on the first day of Labour's annual conference, which is taking place in Blackpool, Mr Blair said there would be no return to "tax and spend."

"We've been there, got the T-Shirt and we are not going back again," he said. "Enterprise and fairness go together."

This robust defence of economic orthodoxy will be repeated today by Gordon Brown, the chancellor of the exchequer, who will insist the government will not give in to pressure to spend its way out of the economic downturn.

In an uncompromising speech which is "not designed to win him a standing ovation," according to his press spokesman, Mr Brown will say there are "no magic wand solutions, no quick fix alternatives."

In spite of widespread fears that unemployment may be about to rise sharply, Mr Brown will resist calls from many Labour members, especially the trade unions, to water down the anti-inflation remit of the Bank of England.

"Our economic competence ... is hard earned and hard won," he will say. "We will not sacrifice it for tomorrow's headlines and next month's false solution and fashionable gimmicks."

Mr Brown will pick up where the prime minister yesterday left off, in staunchly defending the repositioning of Labour as a supporter of business and opponent of tax increases.

On voting reform, the prime minister is expected to give only muted support for a change to proportional voting in general elections when he receives recommendations for the contentious reform at the end of next month.

He also indicated yesterday that he would not be pressured by the opposition Liberal Democrats into promising an early referendum on the issue. "The time for decision is not now," he said. One of his advisers said "the message" that he would be conveying throughout the conference was that the plebiscite might be delayed "for years", possibly until after the next general election.

Mr Blair fears, however, that Paddy Ashdown, the Liberal Democrat leader, will be damaged by his caution on the referendum.

Mr Peter Mandelson, the trade and industry chief minister, is expected to use his maiden speech to the conference today to signal the importance he will place on developing the UK's digital economy.

He will indicate that the government will introduce legislation to boost electronic commerce and internet use in the next session of parliament.

Although he will not commit the government to legislation in the next Queen's speech, he will make clear it is one of his department's top priorities.

But his declaration will make it almost inevitable that there will be no room in the next legislative programme for changes to utility regulation.

Tony Blair answers conference delegates' questions Reuters

Labour firm over gas-fired power stations

By David Wighton, Political Correspondent, in London

Peter Mandelson, the trade and industry secretary, has told top businesspeople the government has no intention of loosening the moratorium on new gas-fired power stations in spite of research suggesting it will lead to thousands of job losses.

In private meetings with executives from the gas and manufacturing industries, Mr Mandelson dismissed claims the move would hit jobs in the North Sea or damage the confidence of inward investors.

Mr Mandelson also confirmed reports that Tony Blair, the prime minister, had opposed any intervention to slow the growth of gas-fired generation and so protect coal-mining jobs.

"The secretary of state said that the prime minister had been against doing anything," reported on executive.

In spite of the prime minister's opposition, other senior members of the cabinet insisted that the government had to act to lift the threat of an estimated 3,000 mining jobs.

Research by the Ernst & Young Item Club, which uses the Treasury's own model for economic forecasting, predicts that the ban on new gas-fired power stations would cost 25,000 jobs.

But in his meetings with industry executives, Mr Mandelson said the issue was not about jobs.

"He said he didn't believe the claim that the moratorium would hit North Sea jobs and that anyway the government was concerned about diversity of fuel not jobs," said an executive.

Mr Mandelson has had meetings with representatives from a number of companies angry about the moratorium, including gas producers, power station developers and turbine manufacturers.

But the executives said Mr Mandelson made clear he had no intention of making any significant changes to the package of proposals to support the coal industry announced by his predecessor Margaret Beckett.

In addition to the moratorium, the government is proposing a reform of the electricity pool and divestment of coal-fired power stations by PowerGen and National Power.

One of the few details that has been open to discussion is how long the moratorium should last.

Under the original proposal it would continue until the energy regulator concluded that the electricity market had been reformed. Some critics said it would be better to have a fixed period, not least because reform of the pool is largely in the hands of companies that have an interest in slowing the process.

Power station developers have been alarmed by indications from government that the moratorium could last more than four years, because of the complex new computer systems required for the pool reform.

Ministers' conduct over BSE challenged

By Maggie Urry

A junior agriculture minister attempted to "hush up" animal welfare activists over BSE in 1989 to protect the beef industry, a witness will tell the BSE inquiry today.

Other witnesses say they were "patronised and ridiculed" by successive ministers when they raised questions over BSE.

The inquiry, which is tracing the development of BSE or "mad cow" disease and responses to it, will today hear from farmers, including the president of the National Farmers' Union, representatives of the Women's Farming Union, and Compassion in World Farming, a group that lobbies for better farm animal welfare and produces a regular magazine.

In a written statement, Joyce d'Silva, of CIWF, said that in spring 1989 she and a colleague were asked to attend a meeting with Donald Thompson, then junior agriculture minister, to discuss BSE.

She said this was unusual as previous meetings with Mr Thompson has been at CIWF's request.

Ms d'Silva said: "To my great surprise, Mr Thompson's opening words were 'I don't want to dictate your editorial policy but ...' I had the immediate thought, 'my God, they're trying to shut us up on BSE'".

Ms d'Silva said Mr Thompson was then "blatant" in attempts "to hush us up". He told her that "we must be careful what we say, as the beef industry could be badly affected".

She also pointed out that a Royal Commission in 1979 said recycling dead animal matter in animal feeds, now thought to be the method by which BSE was spread, created "a risk of transmitting disease-bearing pathogens to stock and thence to humans".

In another statement, Rosemary Berry and Barbara Smith, of the Women's Farming Union, said that it had been "extremely concerned" about BSE from 1986-87.

It also argued at the time that "every possible safeguard should immediately be put in place to prevent transmission in case BSE might, at some future date, prove a risk to humans".

When their members lobbied ministers they were "at best patronised and often ridiculed because their proposals could not be substantiated by scientific proof of need".

Jim Harrison, a farmer in Rudgwick, West Sussex, said his dairy herd had a number of cases of BSE in 1987 and 1988. In June 1988 he wrote to John MacGregor, agriculture minister, saying that "red tape was stultifying responsible efforts to fight the disease".

Before receiving a reply, he told the story to a journalist, and it appeared on the front page of Farming News.

"I had my knuckles rapped by the chief regional officer at Maff Reading," he said.

Electronic cattle passports aim to offer trace of hope

Eddie, a limousin bull calf, is the first animal to be electronically registered on Britain's computerised cattle tracing system, which starts today.

A computer tracing system has operated in Northern Ireland for nearly 10 years and that allowed the province to resume beef exports in June, the first exports of beef from the UK since the European Union imposed a ban in 1996 following the BSE crisis.

Farmers hope the opening of the British Cattle Movement Service in Workington in north-west England, will encourage Brussels to ease the export ban for the rest of the UK.

Nick Brown, agriculture minister, hopes the ban will be lifted by Christmas.

He said the system would make it easier to trace cattle in any outbreak of disease and full traceability of meat would give consumers greater confidence.

The BCMS expects to issue 3m computer-printed cattle passports each year.

ECONOMY BIRMINGHAM CHAMBER OF COMMERCE REPORTS FALLING CONFIDENCE

Warning of downturn in service sector

By Juliette Jowit, Midlands Correspondent

The UK's largest chamber of commerce says it has evidence of a sharp downturn in the service sector, in a quarterly survey published today.

The Birmingham Chamber of Commerce report shows four out of 10 service sector businesses expect turnover to fall over the next year. That is more than double the number three months ago. It proves confidence in industries such as distribution, repairs, transport and business services is falling "as dramatically as manufacturing", according to the chamber.

"People have been telling us manufacturing is 24 per cent of the economy, the service sector is still doing okay, so there's a balance. What we are saying is where manufacturing goes, services follow," said Tony Bradley, policy director. "We aren't saying there's massive recession everywhere, but there's a definite slowdown and we have got to bring that to people's attention."

The news follows the decision last week by Barclaycard to cut 1,100 jobs in the UK. The credit card company blamed its decision on new technology, but the news prompted fears that the UK's surge in call centre service jobs might be slowing.

The survey by the Birmingham chamber, which represents companies employing 300,000 staff, shows further falls in manufacturing sales, profits and confidence.

More than half the companies said domestic sales fell in the third quarter of 1998 – further proof the high pound is making imports unbeatably competitive, said the chamber. Advance sales dropped for 57 per cent of the companies, suggesting further troubles to come.

Roger Dickens, chamber president and a leading critic of high interest rates, rejected moves by the government to blame the Asian crisis.

"It's true, but only partly true. High interest rates and the high pound have caused a lot of the recent job losses," he said. "What I'm really concerned about is we haven't felt the full effect of Asia. There's a serious possibility Asia will export deflation to the UK."

The chamber has called for a Cabinet-level summit on the state of the economy, especially manufacturing.

But the government looks set to continue its tough stance. An article for the in-house Chamberlink magazine next month by Peter Mandelson, the trade and industry secretary, urges companies to become more competitive.

The Confederation of British Industry forecasts growth in services to fall from 6 per cent last year to 1.7 per cent in 1999, but does not expect the sector to decline.

NEWS DIGEST

WORKING TIME

Employers 'unprepared' for legislation on hours

Many UK employers are unprepared for the legal regulations on working time that come into force on Thursday.

These provide employees with the right to a 48-hour maximum working week, rest breaks and 15 days paid holiday a year. More than seven out of 10 companies have yet to make arrangements for compliance with the regulations, according to a survey carried out by the Employers' Forum on European Union social policy.

Most employers surveyed said they were concerned about the legal requirement of keeping records of employees' working time with half adding they were also concerned about introducing a 48-hour week. As many as 74 per cent of employers said they would be asking some of their employees to opt-out of the 48-hour week requirement.

The European working time directive was passed in 1993 and should have been implemented in 1996. "Although organisations have had five years' notice of these working time laws, they have been rushed through domestically in a matter of months which has left employers unprepared," said Alan Wild, head of employment law at Eversheds, the solicitors. **Robert Taylor**

FINANCIAL REGULATION

Tax havens confident on report

Britain's offshore tax havens of Jersey and Guernsey yesterday claimed a government report on their financial regulatory systems would find little to criticise when it is published at the end of this year.

"We are confident the report will support us," said Senator Frank Walker, a leading politician and president of Jersey's finance committee as well as chairman of the new Jersey Financial Services Commission. "We have worked hard to develop a regulatory framework that compares favourably with any international laws."

However, he has admitted the report's author, retired Treasury official Andrew Edwards, had expressed concern over his two posts.

The commission was set up this year to be independent of government and to oversee the day-to-day administration and regulation of the island's £230bn ($386bn) financial activities. **Peggy Hollinger**

MANAGEMENT BUY-OUTS

Value hits $19.15bn

The value of UK management buy-outs has climbed to £11.4bn ($19.15bn) in the first nine months of 1998, against a record £10.8bn in all of 1997, a level that threatens the ability of MBO investors to make high returns through a quick public floatation.

The Centre for Management Buy Out Research, sponsored by Barclays Private Equity and Deloitte & Touche, says the rising value of MBOs is swamping the capacity of the stock market to deal with potential floatations.

"We appear to be heading for an exit pile up," said Tom Lamb, managing director UK of Barclays Private Equity. "Some £32bn has been added to the buy-out pool over the last three years and all of these will eventually be looking for an exit." **Norma Cohen**

CAR SALES

Dealers facing crisis

Franchised UK car dealers are facing a growing crisis of confidence.

Far too many new cars are chasing too few buyers, with a knock-on effect to used-car prices; the threat to market stability from cheap, unofficial imports is increasing, and the fear of recession is threatening to trigger a final quarter downturn in the market.

he latest half-yearly survey of the country's near 7,000 franchised dealers by the Retail Motor Industry Federation has disclosed falling retained profit margins, deteriorating relations between dealers and their manufacturers or importers as the market squeeze tightens, and sales incentive programmes becoming more ineffective in the face of consumer reluctance to buy. **John Griffiths**

BROADCASTING

Free service on reception

On Digital, the terrestrial television operator, is to set up a free service to sort out reception problems likely to be experienced by thousands of its subscribers, the group will announce today.

On Digital will make the announcement at the same time as unveiling details of its pricing, channels and launch date for its 30-channel service, which is received via roof-top aerials.

The group will pledge to send an engineer within 24 hours to any subscriber complaining of reception problems. The exercise will cost On Digital about £30 ($50) for each household affected. **Cathy Newman**

Most favour early entry but few ready

A survey by MORI for the FT finds 63% of British businesses thinks the UK should join the euro sooner rather than later

By Kevin Brown, Industry Editor

The ayes have it. After more than a year of bitter argument between business-people and politicians, the first independent survey of business opinion reveals that many more British companies favour early entry into the European single currency than oppose it.

The survey, carried out by MORI for the FT, ends the debate over whether a majority of UK companies favours British participation in the euro zone, which will come into being in 11 European Union member states on January 1.

It shows that 63 per cent of British business thinks that the UK should enter the European single currency either as soon as possible or after the next general election, even though most companies are taking no action to prepare for its launch, and only a minority thinks entry would be good for the economy.

There is a majority in favour of entry across all regions, among big, medium and small companies, and in the main business sectors. The detailed breakdown shows that big companies and Scottish companies are the most enthusiastic, small companies and northern England least keen.

But business is far from speaking with a single voice, despite the tight timetable, and there is plenty of ammunition for those in the business community and the political parties who want to block or delay UK entry.

A significant minority of businesses remains opposed to entry, and less than half of businesses think full participation in economic and monetary union would be good for the economy.

A big majority thinks joining the euro would lead to a loss of independent decision making in Britain, and more than a third say British entry would not increase the stability of the economy.

Among foreign-owned companies there is a consensus that a British decision to remain outside the euro zone for the foreseeable future would make no difference to investment proposals. However, there was very strong support for entering the single currency from both these inward investors (88 per cent) and companies exporting more than 30 per cent of turnover (81 per cent).

The survey suggests that business is significantly more enthusiastic about the single currency than the population as a whole, vindicating the strategy adopted by the leadership of the CBI, which is broadly supportive of early membership.

The findings will also give a boost to Gordon Brown, the chancellor, and other ministers who want the government to hold a referendum on entry into the single currency early in the life of the next parliament.

However, the results will come as a blow to the Conservative leadership, which has adopted a relatively sceptical policy of keeping the UK out of the euro zone for at least 10 years.

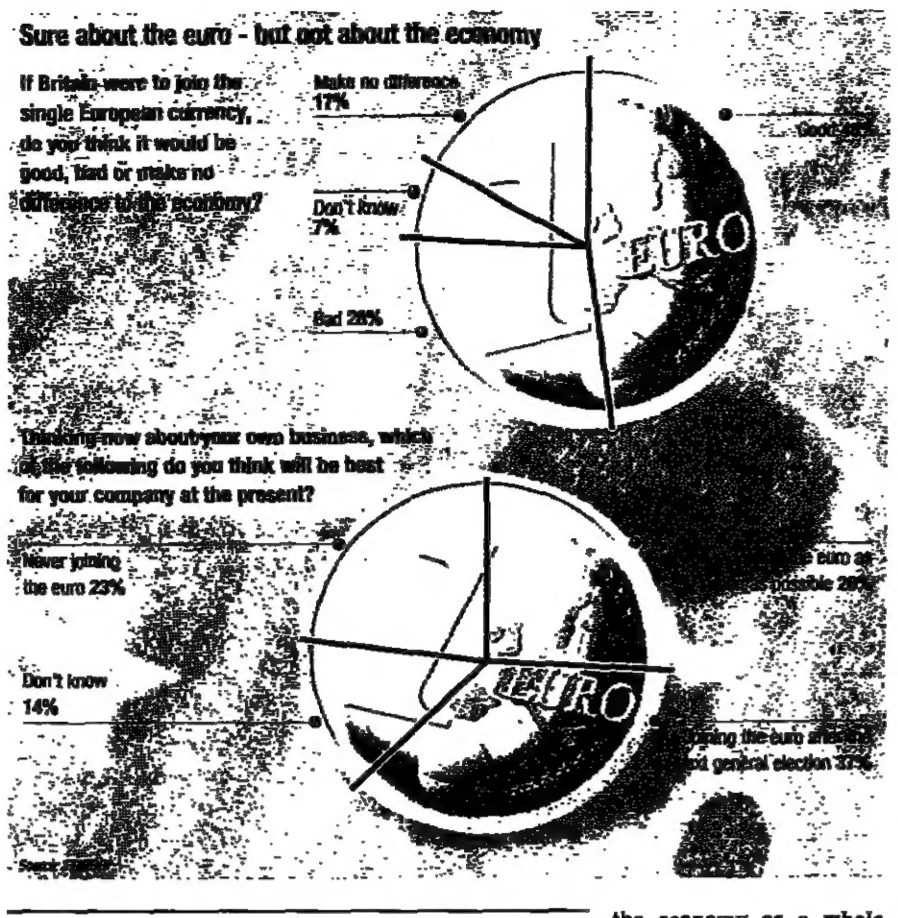
The party leadership will be forced to fall back on the stronger tide of euroscepticism in the general population. The European Union's latest poll, released in the summer, showed 34 per cent UK support for the single currency, and a MORI poll for The Sun in June found only 28 per cent support.

The detailed findings, which have been weighted to give due impact to the views of smaller companies, suggest that many businesses feel badly informed about both the European Union's proposals for setting up the euro, and the UK government's tentative plans for British entry after a referendum sometime in the next parliament.

Only 8 per cent of businesses said they were very well informed about the new currency, although 33 per cent felt they were fairly well informed. But 44 per cent said they were not very informed, and 15 were not at all informed.

The survey tells a similar story about companies' views of the likely impact of the euro on respondents' own businesses. Only 9 per cent said they were very well informed, with 30 per cent fairly well informed, and 54 per cent either not very or not at all informed.

A clear majority said that joining the euro would lead to a loss of independent decision making powers in the UK – one of the main political points made by opponents of the single currency.



Statistical basis of survey

The MORI/Financial Times survey of UK businesses has been conducted among chairmen, managing directors and other main board members of organisations with more than 10 employees. A total of 753 interviews were conducted by telephone between September 9-25. This provides a robust sample, with a high degree of statistical reliability.

Recent research into European issues has shown some stark differences between the perspectives of small, medium and large businesses. The sample has therefore been structured to ensure reliable results can be obtained for companies of different sizes: those with 11-49 employees, those with 50-199 and those with 200 or more.

In addition, the sample has been designed to ensure that interviews have been conducted with a robust sample of "inward investors" – enterprises with a parent company based outside the UK. The sample of companies has been drawn from the Dun & Bradstreet database. At the analysis stage, the data have been weighted (by sector, company size and location of parent company) to the profile of all UK businesses with more than 10 employees.

Research © FT and MORI

But only 27 per cent of respondents agreed with the proposition that British interest rates would be higher inside the euro zone than outside – another key claim made by Eurosceptics.

Asked what would happen to interest rates if Britain decided not to join, 52 per cent said they would be higher, with only 15 per cent expecting lower rates, and 27 per cent suggesting they would be about the same.

The survey suggests that 52 per cent of businesses think that joining the euro would increase the stability of the economy, while 35 per cent disagree – suggesting that there are substantial fears about the impact of the euro even among some of those who support it.

That conclusion is supported by the diversity of views on whether entering the euro would be good for the economy as a whole. Less than half of businesses – 48 per cent – thought it would, against 28 per cent which thought it would be bad.

Both pro and anti Europeans will probably claim the 17 per cent who thought it would make no difference should be counted on their side. However, the sceptical camp will take most heart from the survey's conclusions on inward investment.

MORI asked foreign owned companies – about 11 per cent of the businesses – whether a UK decision to stay outside the euro for the foreseeable future would make them more or less likely to invest in Britain in the future.

More than 85 per cent said that a British decision to stay out would make no difference their investment plans. Only 11 per cent said it would make investment less likely.

On the key question whether entry into the euro zone would be good for the respondent's own company, only 26 per cent of businesses were in favour of joining as soon as possible – which would be sometime in the present parliament.

But 37 per cent – the biggest single group – wanted to join after the next general election, when the government plans to hold a referendum on entry if it judges the single currency to have passed tests on stability and convergence.

Only 23 per cent of businesses thought the UK should never enter the euro zone, while a relatively large group of 14 per cent could not decide.

That may be, in part, because so few companies have addressed the implications of the currency in a practical way. More than 75 per cent said they had taken no action, with only 22 per cent saying they had started work.

There is widespread disagreement about the exchange rate at with Britain should enter the euro – an issue likely to be of crucial importance if the government decides eventually to go ahead.

Some 26 per cent of businesses said a rate of less than DM2.70 would be ideal, and 24 per cent expected to achieve that. Some 11 per cent thought the rate should be between DM2.70 and DM2.90, and 17 per cent thought it likely; while 15 per cent per cent thought DM2.90 about right with 14 per cent expecting that to be the eventual rate.

Only a handful expected a higher rate, but 36 per cent said they did not know either what the rate should be or what they thought it would be, presumably reflecting in part those companies that are not exposed to exchange rate risk, and in part those that have too little information to decide.

Irrespective of their views on detailed issues, most businesses think that they will be using euro currency and coinage regularly by the year 2010. More than 40 per cent said this was very likely, while 17 per cent said it was fairly likely and only 32 per cent thought it was fairly or very unlikely.

Virtually none of the companies surveyed wanted to withdraw from the EU. Asked whether it would be in the best interests of British business to do so, 77 per cent opted for staying in, and only 16 per cent for withdrawal.

Like the population at large, a majority of businesses appears to think that the euro is here to stay, and that Britain cannot remain aloof from it, whether or not those who want the UK to play a full part have their way.

The questions we asked

(All figures %)

● Do you think that the economic condition of the country will improve, stay the same, or get worse over the next 12 months?

Improve	8
Stay the same	27
Get worse	61
Don't know	5
Net improve	-53

● Over the next 12 months, do you think that your organisation's business will improve, stay the same, or get worse?

Improve	43
Stay the same	39
Get worse	16
Don't know	2
Net improve	+27

● On balance, do you think that the interests of British business would be best served if Britain stayed in the EU, or if it withdrew?

Stayed in the EU	77
Withdrew from the EU	16
Don't know	7

● As you may know, the member states of the European Union have agreed that the new European single currency – the "euro" – will be launched on 1 January 1999 with 11 EU countries participating. The UK government has made a commitment to join in principle when the conditions are right, but has not specified a target entry date. How well informed do you feel about:

● The plans for setting up of the euro

Very well informed	8
Fairly well informed	33
Not very informed	44
Not at all informed	15
No opinion	1

● What the Euro will mean to your business when it is introduced elsewhere in the EU

Very well informed	9
Fairly well informed	30
Not very informed	36
Not at all informed	18
No opinion	7

● I am now going to read out some things that people have said might happen if Britain does join the European single currency. For each one I read out, please tell me to what extent you agree or disagree.

● Joining the Euro will lead to a loss of independent decision making in Britain

Strongly agree	33
Tend to agree	35
Neither agree nor disagree	4
Tend to disagree	20
Strongly disagree	8

● Joining the Euro will lead to an increase in interest rates in Britain

Strongly agree	8
Tend to agree	19
Neither agree or disagree	18
Tend to disagree	35
Strongly disagree	21

● Joining the Euro will increase the stability of the British economy

Strongly agree	16
Tend to agree	36
Neither agree or disagree	14
Tend to disagree	22
Strongly disagree	13

● If Britain were to join the single european currency, do you think it would be good for Britain's economy, it would be bad for Britain's economy, or it would make no difference?

Good	48
Bad	28
Make no difference	17
Don't know	7

● And thinking now about your own business which of the following do you think will be best for your company at the present time – joining the euro as soon as possible, joining the euro after the next general election, or never joining the euro?

Joining the euro as soon as possible	26
Joining the euro after the next general election	37
Never joining the euro	23
Don't know	14

● Why do you say, join as soon as possible?

Euro will make trading easier/remove problems of different currencies	44
Joining now will increase/provide stable business climate	28
Not joining euro will cause unstable business climate	19
Euro will increase sales/have positive impact on our business	17

● Why do you say, join after election?

Wait and see experience/impact of euro and other countries	55
Join euro after election when economy/sterling move stable	28
Improve information/research on impact of euro on business/economy	11

● Why do you say, never join?

Euro will have negative impact on our business/provide no benefits	24
Euro will reduce/eliminate independence of Britain/UK economy	23
Lack confidence in concept/arrangements	18
Joining now will cause unstable economic climate	15
Euro will lead to bureaucracy/lack of control	13

● Is your company British or Foreign-owned?

British-owned	90
Europe	3
US/Canada	4
S America	*
Africa/Mid East	*
Far East	1
Other	2
Don't know	*

FOREIGN-OWNED COMPANIES ONLY

● If the UK decides not to join the euro for the forseeable future, do you think that it will make your company more likely to invest in Britain, less likely, or it will make no difference to your company's plans?

More likely	1
Less likely	11
Make no difference	85
Don't know	2

ALL COMPANIES

● Is your company currently taking any action in response to the launch of the single European currency?

Yes	22
No	77
Don't know	1

THOSE TAKING ACTION

● What action have you taken/are you taking?

Review Pricing policy	21
Review Business strategy	14
Review Accounting practices	24
Review Invoicing practices	16
Review Payments to suppliers	17
Review Salaries and personnel issues	4
Review information technology issues	28
Review Whether to handle euro notes & coins	19
Open a Euro account with a bank	32
Information gathering	11
Other	6

● At present, the rate of the pound (£) to the Deutschmark (DM) is around 2.9. If Britain were to join the single European currency early in the next century, what do you feel would be the most likely new exchange rate? And what would be the ideal exchange rate?

	Likely	Ideal
Less than 2.7	24	26
Above 2.7 but below 2.9	17	11
About the same - 2.9	14	15
Above 2.9 but less than 3.1	6	8
3.1 or above	3	4
Don't know	36	36

● And if Britain were to decide not to join the single European currency early in the next century, do you think that interest rates would be higher, lower, or about the same as they would be if Britain were to participate in the euro?

Higher	52
Lower	15
About the same	27
Don't know	6

● How likely do you think it is that your organisation will regularly use a single European Currency and coinage in your business by the year 2010?

Very likely	42
Fairly likely	17
Fairly unlikely	14
Very unlikely	18
Don't know	8

*less than 0.5%

BUSINESS REACTION

Something for both sides

By Kevin Brown

The survey was welcomed by business organisations on both sides of the debate about the single currency, but supporters and opponents of early UK membership drew starkly different conclusions from the results.

The Confederation of British Industry said the two-thirds majority for entry broadly confirmed the findings of a survey of its own members last year, which identified 72 per cent support for British membership of Emu.

But Business for Sterling, the umbrella group campaigning against moves towards early UK membership, said the substantial minority opposed to British entry demonstrated the need for much fuller debate.

Adair Turner, director-general of the CBI, said the results, which demonstrated "a clear preponderance" in favour of membership, should be accepted by everyone as a good test of business opinion.

"There are vitally important arguments both for and against British membership of the euro, and, even for those in favour, about the appropriate timing for UK entry. It is vital that all these issues are now debated openly and rationally."

However Lord Marsh, executive chairman of Business for Sterling, accused the CBI of seeking to stifle debate – for example, by failing to schedule a debate on the issue at this year's CBI conference in Birmingham.

Lord Marsh, a former Labour cabinet minister, said more than 200 companies had now joined the organisation, and claimed that many more senior businesspeople had expressed scepticism behind the scenes. "There has been no debate on this," he said. "If you get 23 per cent of serious businesspeople who have no vested interest in anything other than the health of their business saying that on the basis of their business knowledge this is a positively dangerous move... that seems to me to be the basis of a serious argument."

Ruth Lea, policy director of the Institute of Directors, said she was surprised by the strength of the vote for remaining permanently outside the euro zone – although it was substantially smaller than a 70 per cent vote against UK entry among IoD member in 1996.

"Our overwhelming feeling is that a lot of people do not yet understand the implications of the single currency," she said. "I would ask those who want to enter the single currency another question: would they still want to go in if there had been no change in economic conditions?"

Ian Peters, deputy director general of the British Chambers of Commerce, urged the government to make clear when it will decide whether to call a referendum on British membership of the euro, and the precise criteria it would use to determine whether membership was in UK interests.

"This confirms the importance of having a fully informed debate," he said.

Keith Todd, chief executive of ICL, the information technology services group, and a leading member of the pro-euro European Movement, said those companies that remained opposed to British membership probably needed more information about the project.

POLITICAL REACTION

Europhiles hail results

By David Wighton, Political Correspondent

The results of the FT survey were warmly welcomed by euro-enthusiasts at Westminster. They said it underlined the need for the government to support the lead given by business.

Malcolm Bruce, the Liberal Democrat's Treasury spokesman, said the figures were also a blow to the Conservative party leadership, which has adopted a position of ruling out membership for 10 years.

But John Redwood, the shadow industry secretary, insisted he was "heartened" by the figures.

"The survey shows that less than a third of businesses want to go in as soon as possible. That leaves three-quarters who are potentially our supporters if we can persuade them that going in within five years would be too soon."

He added that senior businesspeople tend to follow the line of the government of the day.

"That doesn't mean they believe it. They think it is the safest thing to do."

He expressed surprise at the relatively low proportion of businesses that expected to be using the euro in 2010 given that "most businesses expect it is inevitable eventually". He said it illustrated how much uncertainty surrounded the issue.

Kenneth Clarke, the Conservative former chancellor who is opposed to the shadow cabinet line, said: "It would be very worrying if political opinion moved too far away from business opinion."

Mr Clarke dismissed those eurosceptics who doubt the value of businesspeople's calculation of the costs and benefits of single currency membership.

"It is extremely important what business thinks because it is in the best position to judge the likely impact of our staying outside the single currency."

He said the results clearly showed strong support across business for sterling to join the euro if it establishes itself as a stable currency.

Giles Radice, the Labour chairman of the Commons Treasury committee, said he was not surprised by the strong support for early membership of the single currency. But he expressed concern about the apparently low level of preparation for the introduction of the euro next January.

"The results show there is broad support across business for Britain joining the single currency. But it also shows that there is some work to be done by those who support the single currency, above all in preparing British business to benefit from the euro."

The figures will be privately welcomed by the government, which believes that strong business support for the euro is essential to swing public opinion behind sterling's membership.

But euro-enthusiasts have been increasingly critical of the government's cautious approach, which reflects the prime minister's reluctance to get too far ahead of the electorate.

Some hope the apparent hardening of business opinion will encourage the government to adopt a more positive attitude.

Mr Bruce added: "These results show that business is way out ahead of the government."

MEMBERSHIP 'TESTS'

Tough choices lie ahead before Britain joins

By Richard Adams, Economics Staff

Policymakers face some tough choices about how to handle the economy in the run-up to eventual membership of the single currency.

Last year the government declared itself "in principle" in favour of entry to European economic and monetary union. But it is now unlikely that the UK will join Emu until 2002 at the earliest. This leaves UK companies outside Emu for at least three years.

Between now and eventual entry – assuming a referendum agrees – the management of the economy will increasingly be aimed at membership.

Some of those preparations are already under way. Last October Gordon Brown, the chancellor, set a series of five economic "tests", which he believed should be satisfied before UK entry.

The key test was Mr Brown's first one: is there compatibility between the business cycles and economic structures of the UK and the euro zone member countries? At the moment the cycles are not in synch: the UK is ending a growth phase, while the core European countries – France and Germany – are entering one. That means UK interest rates are high and likely to fall, while German and French interest rates are low and likely to rise.

There may be a period of pseudo-convergence, as euro rates on the way up meet UK rates on the way down. But Eddie George, governor of the Bank of England, has compared that to "ships that pass in the night".

The UK usually experiences higher levels of inflation than Germany at the same point of an economic cycle. To prepare for Emu membership, UK inflation will need to fall to that of Germany, or suffer a competitive disadvantage when sharing the same currency.

"The big problem will be the level of the UK's short-term interest rates compared to mainland Europe," said Richard Jeffrey, chief economist at Charterhouse Bank. "The great danger is that the UK will try to get its rates down too quickly, and find that domestic conditions need them to be put up again."

That suggests the UK will require higher rates than those set by the European Central Bank, to bear down on inflation. That could mean sterling remains at a higher exchange rate against the euro than calculations of its "fair value" warrants.

Surprisingly – given its importance – the Treasury's criteria did not mention sterling. Yet one condition of entry is that the pound should be stable for a period (probably less than two years) against the euro.

When that period begins, the government is likely to change the terms of the Bank of England's independence. Rather than have the Bank set monetary policy based on targetting inflation, it will have to set rates with an eye on the sterling-euro exchange rate.

As Nigel Lawson discovered in the late 1980s, shadowing another currency can result in a nasty inflationary surprise if unchecked. It may be that the toughest choices will be made by the UK's central bank rather than its government.

If the Bank decides to keep down inflation at the expense of a stronger pound, sterling's Emu entry level could be higher than many are expecting come 2002.

Key questions broken down by region, size and sector

How well informed do you feel about the plans for the setting up of the euro?

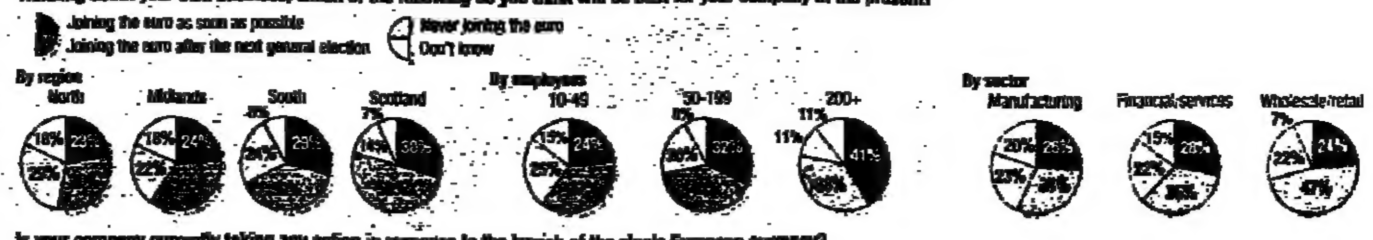
Per cent	Very well	Fairly well	Not very	Not at all	No opinion
By region					
North	9	23	44	22	3
Midlands	5	43	41	11	*
South	10	33	43	14	*
Scotland	3	38	54	5	–
By employees					
10-49	8	27	47	17	1
50-199	6	51	36	7	*
200+	20	48	25	5	*
By sector					
Manufacturing	10	40	31	19	–
Financial/services	9	36	42	13	*
Wholesale/retail	8	28	44	17	2

How well informed do you feel about what the euro will mean for your business when it is introduced elsewhere in the EU?

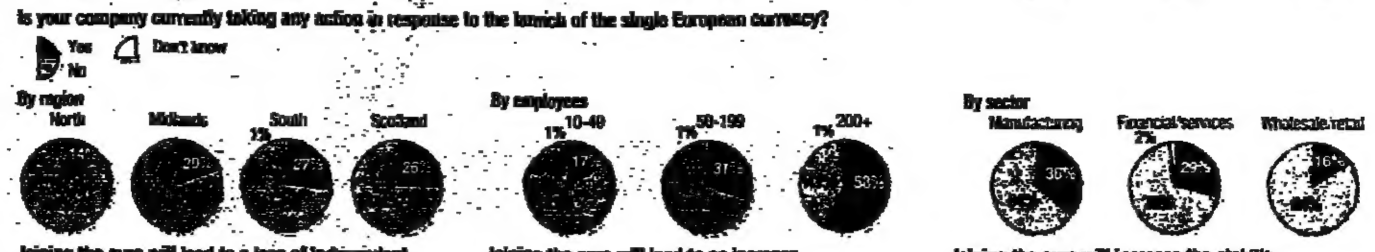
Per cent	Very well	Fairly well	Not very	Not at all	No opinion
By region					
North	8	23	28	28	13
Midlands	5	35	34	19	8
South	12	30	39	14	6
Scotland	1	47	31	17	4
By employees					
10-49	8	24	39	21	8
50-199	7	51	28	9	5
200+	22	48	23	4	4
By sector					
Manufacturing	14	28	38	16	5
Financial/services	10	34	32	17	7
Wholesale/retail	8	28	37	19	8

Source: FT/MORI

Thinking about your own business, which of the following do you think will be best for your company at the present?



Is your company currently taking any action in response to the launch of the single European currency?



Joining the euro will lead to a loss of independent decision making in Britain?

Per cent	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree
By region					
North	31	35	4	18	14
Midlands	34	37	*	19	10
South	32	38	5	19	8
Scotland	40	26	9	17	8
By employees					
10-49	33	35	5	19	8
50-199	35	34	2	21	8
200+	28	40	4	19	8
By sector					
Manufacturing	36	28	5	18	11
Financial/services	30	38	3	22	6
Wholesale/retail	30	41	7	13	9

Joining the euro will lead to an increase in interest rates in Britain?

Per cent	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree
By region					
North	6	29	22	29	14
Midlands	13	20	9	42	15
South	6	15	18	34	26
Scotland	19	28	16	18	18
By employees					
10-49	9	21	18	34	18
50-199	6	15	13	38	26
200+	3	8	14	35	38
By sector					
Manufacturing	9	20	14	36	21
Financial/services	12	16	17	37	24
Wholesale/retail	3	26	19	33	18

Joining the euro will increase the stability of the British economy?

Per cent	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree
By region					
North	11	32	15	24	18
Midlands	18	26	12	16	17
South	19	33	12	25	11
Scotland	10	65	8	17	*
By employees					
10-49	15	36	14	21	14
50-199	18	31	16	28	8
200+	18	45	10	18	9
By sector					
Manufacturing	10	38	14	27	11
Financial/services	18	38	9	23	12
Wholesale/retail	18	30	24	19	8

If Britain were to join the single European currency, do you think it would be good, bad or make no difference to the economy?

Per cent	Good	Bad	Make no difference	Don't know
By region				
North	45	38	11	6
Midlands	40	31	24	4
South	49	25	17	8
Scotland	62	17	18	3
By employees				
10-49	46	29	18	7
50-199	51	27	16	6
200+	63	19	12	6
By sector				
Manufacturing	38	28	21	13
Financial/services	58	29	11	3
Wholesale/retail	45	26	18	9

If the UK decides not to join the euro for the foreseeable future, will it make your company more likely to invest in Britain, less likely, or make no difference?**

Per cent	More likely	Less likely	Make no difference	Don't know
By region				
North	12	14	74	–
Midlands	–	18	80	2
South	–	11	86	2
Scotland	–	1	98	–
By employees				
10-49	2	1	97	–
50-199	–	21	74	5
200+	1	17	81	1
By sector				
Manufacturing	2	15	81	2
Financial/services	2	8	87	3
Wholesale/retail	–	11	88	1

* Less than 0.5% ** Foreign owned companies only
Figures may not add to 100% due to rounding and/or multiple responses

REGIONAL VARIATIONS

Scottish support for early entry

By Kevin Brown, Industry Editor

More than half of companies in all four of the broad UK regions identified in the survey think it would be in their interests for Britain to join the European single currency as soon as possible or after the next election.

However, there are substantial differences in the levels of enthusiasm among companies spoken to by MORI.

The north of England emerges as the least confident English region, followed by the south and the Midlands and Wales.

The strongest support for early entry emerged in Scotland, where the companies canvassed by MORI were also much more confident that British entry would yield substantial economic benefits.

The survey suggests that 30 per cent of Scottish businesses want to join the euro zone as soon as possible, with a further 50 per cent opting for euro membership after the next general election.

The total of 80 per cent favouring membership compares with 68 per cent in the south of England, 59 per cent in the Midlands and Wales, treated as a single region by MORI for the purposes of the survey, and 53 per cent in the north.

Scotland also returned the lowest anti-single currency figure, with only 14 per cent wanting the UK to remain outside the euro forever, compared with 29 per cent in the north, 24 per cent in the south and 22 per cent in the Midlands/Wales.

Significantly, Scotland was the only region where a majority of businesses thought that entering the single currency would be good for the British economy.

There was substantial opposition to this proposition throughout the English regions.

More than 60 per cent of Scottish businesses said entry would be good for the economy generally, compared with 49 per cent in the south, 45 per cent in the north, and 40 per cent in the Midlands/Wales.

Only 17 per cent of Scottish businesses said entry would be bad for Britain's economic prospects, compared with 38 per cent in the north, 31 per cent in the Midlands/Wales, and 25 per cent in the south.

Asked whether joining the euro would increase the stability of the British economy, 75 per cent of Scottish businesses said they strongly agreed or tended to agree, compared with only 43 per cent in the north, 52 per cent in the south, and 55 per cent in the Midlands/Wales.

There was overwhelming support in all regions for the proposition that the interests of British business are best served by remaining in the EU, irrespective of whether the government decides to join the single currency.

Curiously, in the light of their general enthusiasm for the single currency, the survey revealed that Scotland is home to a larger proportion than other regions of businesses that think withdrawal from the European Union would be in Britain's economic interests.

Remaining within the EU attracted the support of 79 per cent of businesses in the south, 78 per cent in the Midlands/Wales, 76 per cent in Scotland and 68 per cent in the north.

However, 22 per cent of Scottish companies said they thought withdrawal from the EU would be in the best interests of business, as did 20 per cent in the north, 16 per cent in the south and 14 per cent in the Midlands/Wales.

COMPANY SIZE

Small is sceptical in uncertain world

By Kevin Brown

There is a clear correlation in the survey results between the size of companies and their position on the euro.

Big companies, defined as those employing more than 200 people, are more informed about the single currency, more confident of economic benefits from British membership, more likely to be taking action to prepare for the January launch, and keenest to join now or after the next election.

They are also much more confident that the entry negotiations will produce a relatively low exchange rate, and surer they will be using euro notes and coins in their own business activities by 2010 – whether the UK joins or not.

In responses to almost every question, medium-sized companies – defined as those employing between 50 and 199 workers, were slightly less enthusiastic entry into the euro zone, and slightly more cautious about its impact.

Small companies, defined as those employing between 10 and 49 people, were more suspicious of the single currency project, less well-informed (by their own estimation), and more worried about the country's prospects. Of these, 19 per cent favoured withdrawing from the EU, compared with negligible numbers of big companies.

There was a marked disparity in the extent to which companies felt informed about the plans for the euro and the government's proposals for UK participation.

More than 65 per cent of big companies said they felt either very or fairly well informed, compared with 57 per cent of medium-sized companies and only 35 per cent of small ones. Some 64 per cent of small companies said they felt either not very or not at all informed.

Similarly, 68 per cent of big companies said they felt either very or fairly well informed about the immediate impact of the euro zone on their business, compared with 58 per cent of medium-sized companies and only 32 per cent of small ones.

There was a big difference in views on interest rates. Only 11 per cent of big companies thought joining the euro zone would lead to higher rates, while 30 per cent of small companies feared it would do so.

A healthy 63 per cent of big companies thought joining the zone would be good for Britain's economy, compared with 46 per cent of small companies. Conversely, 29 per cent of small companies thought entry would be bad for Britain, compared with only 19 per cent of big ones.

Nearly half of big companies – 41 per cent – wanted to join the euro zone as soon as possible, with a further 38 per cent favouring membership after the next general election and only 11 per cent wanting to stay out forever.

In sharp contrast, 25 per cent of small companies wanted to stay out forever. However, there was more support for membership among small companies than might have been expected: 24 per cent wanted to join as soon as possible and 37 per cent after the election.

Big companies were substantially more likely to have taken some action to prepare for the launch of the single currency. Nearly 60 per cent said they had done so, compared with only 17 per cent of small companies.

Among those taking action, many more large companies than small ones had reviewed their business strategy (27 per cent to 8 per cent), invoicing procedures (32 per cent to 7 per cent), and information technology needs (38 per cent to 22 per cent).

Curiously, small companies were more likely to have opened a euro account with a bank: 32 per cent had done so, compared with 28 per cent of big companies.

But large companies were more confident they would be using euro notes and coins in their business activities by 2010.

More than 75 per cent of big companies said that was very or fairly likely, compared with 55 per cent of small companies.

ANALYSIS BY SECTOR

Finance groups see economic benefits

By Kevin Brown

A detailed analysis of the survey results throws up some intriguing comparisons between manufacturing and the financial and services sector. The latter appeared more confident of the economic benefits of euro membership but more fearful of a relatively high conversion rate.

The proportion of companies in each sector favouring entry within five years was about the same – 57 per cent of manufacturers and 63 per cent of financial and services companies, which MORI grouped together for analysis. Some 23 per cent of manufacturers wanted to stay out forever, as did 22 per cent of financial and services companies.

The sectors also appeared to be similarly informed, or uninformed, about the plans for the euro launch in January, and the government's proposals for possible British entry in the next parliament.

Among manufacturers, 50 per cent said they were either very or fairly well informed, compared with 45 per cent in the financial and services sector. Similarly, 42 per cent of manufacturers felt well or fairly informed about the impact of the euro launch on their own businesses, compared with 44 per cent of financial and services companies.

Both groups were fairly dismissive of claims that joining the euro zone would lead to higher interest rates. Among manufacturers, 57 per cent strongly disagreed or tended to disagree, as did 61 per cent of financial and services businesses.

Manufacturers were less confident, however, that joining would promote economic stability. Only 48 per cent of manufacturers said it would, compared with 57 per cent in financial and services companies.

The financial and services sector also appeared much more confident that entering the euro zone would be good for Britain's economy. Some 56 per cent said Britain as a whole would be better off, compared with 38 per cent of manufacturers.

Interestingly, there was little difference in the numbers that thought entry would be bad – 28 per cent of manufacturers and 29 per cent among financial and services companies. The difference is accounted for by a much higher proportion of manufacturers that thought it would make no difference – 21 per cent compared with 11 per cent.

Neither sector appeared to have made a great deal of effort to prepare for the euro launch – 64 per cent of manufacturers said they had taken no action in response to the European Union's proposals, as did 70 per cent in finance and services.

There were differences, though, in the exchange rate at which companies in the two sectors thought Britain would enter the euro zone. An optimistic 36 per cent of manufacturers thought it would be below DM2.70, compared with 29 per cent of financial and services companies.

A further 21 per cent of manufacturers forecast a rate between DM2.70 and DM2.90, compared with 14 per cent in finance and services, and only 13 per cent of manufacturers thought the rate would be DM2.90 or above, compared with 24 per cent of financial and services companies.

The financial and services sector also seemed less keen on a low conversion rate as an objective. Asked to specify an ideal exchange rate, 58 per cent of manufacturers wanted less than DM2.90 to the pound, while only 37 per cent in finance and services agreed. In the latter sector, 34 per cent wanted a rate of DM2.90 or above, compared with only 17 per cent in manufacturing.

Manufacturers were significantly more certain that the euro would survive its first decade than were companies in finance and services. Asked whether they expected to be using euro notes and coins regularly in their own business by 2010, 70 per cent of manufacturers said they were very or fairly likely to be doing so. The proportion among financial and services companies was 58 per cent.

HEALTH OF THE ECONOMY

Expectations vary widely between areas and sectors

By Kevin Brown

The survey reveals an extraordinary mismatch between companies' views of the likely health of the British economy over the next year – which will probably affect sentiment towards the euro – and their expectations of their own businesses' performance.

Reflecting the growing economic gloom, 61 per cent of companies said they expected the economic condition of the country to get worse, with 27 per cent suggesting it would remain the same, and only 8 per cent expecting an improvement.

MORI's public opinion poll findings, published in The Times on Thursday, found only 13 per cent of voters expect an improvement in the economy over the next year, compared with 50 per cent who think things will get worse.

However, asked about the prospects for their own organisation, 43 per cent of respondents to the FT poll said they expected an improvement, with 39 per cent thinking things would remain the same and 16 per cent expecting the environment to deteriorate.

The detailed findings suggest there is a broad coincidence of view on both questions between small companies, defined for the survey as companies employing 10 to 49 workers, medium-sized companies (50-199) and big ones (200 plus).

For example, 6 per cent of big companies said the economy would improve, 22 per cent forecast no change, and 70 per cent expected a deterioration. The comparable figures for small companies were 8 per cent, 29 per cent and 58 per cent.

Asked about their own prospects, 43 per cent of big companies forecast an improvement, compared with 41 per cent of small ones. The numbers opting for no change were also similar (38 per cent of big companies and 40 per cent of small ones), while 16 per cent in each category forecast worsening economic conditions.

Scotland emerges as markedly more pessimistic than the north of England, the south, and the Midlands and Wales, which MORI has grouped together because of the relatively small number of companies in the principality.

Only 4 per cent of Scottish companies said they expected the economy to improve, with 3 per cent expecting no change, and 82 per cent expecting deterioration.

By contrast, 11 per cent of companies in the south expected an improvement, with 63 per cent forecasting a deterioration, and there was a similar pattern in the north (5 per cent and 53 per cent) and Midlands/Wales (5 per cent and 64 per cent).

Only 34 per cent of Scottish companies forecast an improvement for themselves, while 32 per cent thought things would remain the same and 33 per cent expected a deterioration.

Companies were most optimistic in the north, where 60 per cent thought things would improve, compared with 25 per cent expecting no change and 10 per cent expecting a deterioration.

The figures tell a similar story broken down by sector. For example, only 8 per cent of manufacturing companies forecast an improvement in the economy, with 74 per cent expecting deterioration.

Yet 44 per cent of manufacturers said they expected their own business to improve, with 32 per cent forecasting no change and only 21 per cent expecting things to get worse.

Only 8 per cent of financial and services sector companies forecast improvement, compared with 65 per cent expecting a deterioration. Yet 37 per cent of these companies thought their prospects were improving, while 43 per cent expected no change, and 17 per cent anticipated a worsening.

Wholesalers and retailers were slightly more optimistic, with 10 per cent forecasting an improvement, 28 per cent no change, and 59 per cent expecting conditions to worsen. However, 42 per cent of companies in the sector thought their prospects were improving, while 38 per cent expected no change and 18 per cent thought things would get worse.

Do you think that the economic condition of the country will improve, stay the same, or get worse over the next 12 months?

Per cent	Improve	Stay the same	Get worse	Don't know
By region				
North	5	38	53	3
Midlands	5	25	64	6
South	11	24	63	2
Scotland	4	3	82	[illegible]
By employees				
10-49	8	29	58	4
50-199	7	22	68	3
200+	6	22	70	2
By sector				
Manufacturing	8	14	74	4
Financial/services	8	22	65	5
Wholesale/retail	10	28	59	3

Source: FT/MORI

Over the next 12 months, do you think that your organisation's business will improve, stay the same, or get worse?

Per cent	Improve	Stay the same	Get worse	Don't know
By region				
North	60	25	10	5
Midlands	31	43	24	1
South	43	42	14	2
Scotland	34	32	33	2
By employees				
10-49	41	40	16	2
50-199	50	32	16	2
200+	43	38	18	3
By sector				
Manufacturing	44	32	21	3
Financial/services	37	43	17	3
Wholesale/retail	42	38	18	3

QUOTES

Differing views on participation in the euro

Many of the senior business-people who were questioned for the FT/MORI survey had very strong views for or against British participation in the single currency. This is a selection from what some of them had to say.

Those who wanted the UK to join as soon as possible:

"It's too late to join the euro now, but we should join as soon as possible so as to be competitive. Otherwise we are going to be isolated." Small manufacturer, south of England.

"Britain will lose out and fall behind other member states already established within the euro." Small manufacturer, Northern Ireland.

"We carry out work for European-based companies and at the end of this year we will tender for work in euros. If we do not join the euro it will be a gamble as to what the pound is doing against the euro, and it could be expensive for the company." Big retailer, north.

Those who wanted to join after the next election:

"This not a properly researched or readily understood topic yet. There are monumental changes in currency and I'm not sure if the euro is worth more or less than the pound." Medium-sized construction company, south.

"Waiting will allow us to see how it performs after it is launched. It means that my company can still trade in euros or sterling in the interim meaning that we have the advantage of flexibility." Medium-sized financial company, Scotland.

"I don't think we're ready to join the euro yet. Also, I'm not convinced it's going to work as there are too many diverse economies." Small services company, south-east.

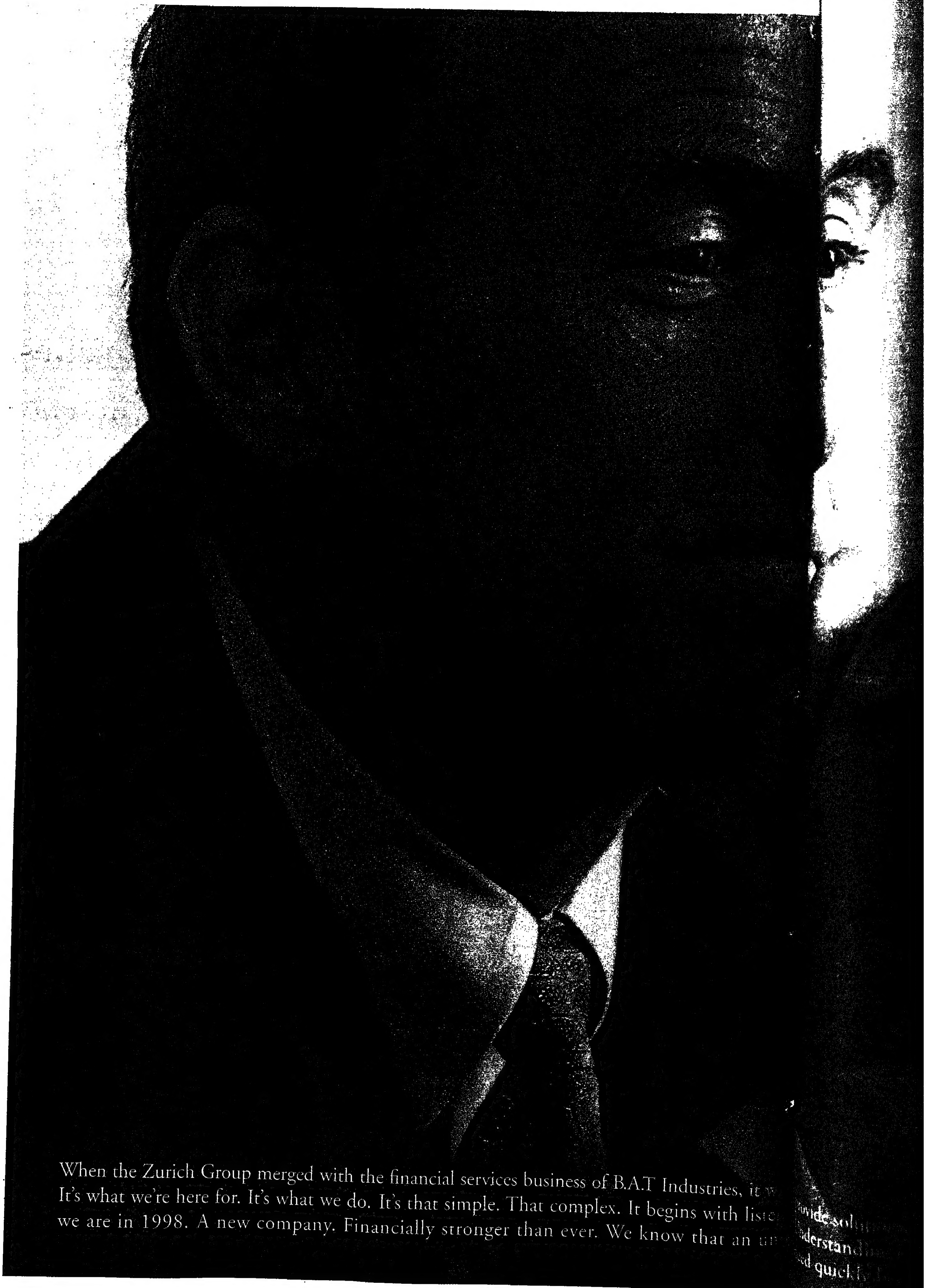
"The euro needs time to sort itself out. There are a number of economic difficulties in re-aligning economies and I don't think economies like Germany and Italy are prepared for the euro." Big wholesaler, north.

Those who wanted to remain outside the euro zone forever:

"The surrender of British sovereignty is something I am completely opposed to. The whole idea of a single currency is untenable and would lead to instability." Big retailer, Midlands.

"I think things will get more expensive than at the moment. At present things can be bought cheaply off the Continent and if the single currency goes ahead things will become more expensive." Small construction company, north.

"Sterling is an international currency and has been for many years. Why should we move away towards an obscure bond? If we abolish the pound then we will drift into a weaker currency." Medium-sized manufacturer, south.


When the Zurich Group merged with the financial services business of B.A.T Industries,
It's what we're here for. It's what we do. It's that simple. That complex. It begins with
we are in 1998. A new company. Financially stronger than ever. We know that an

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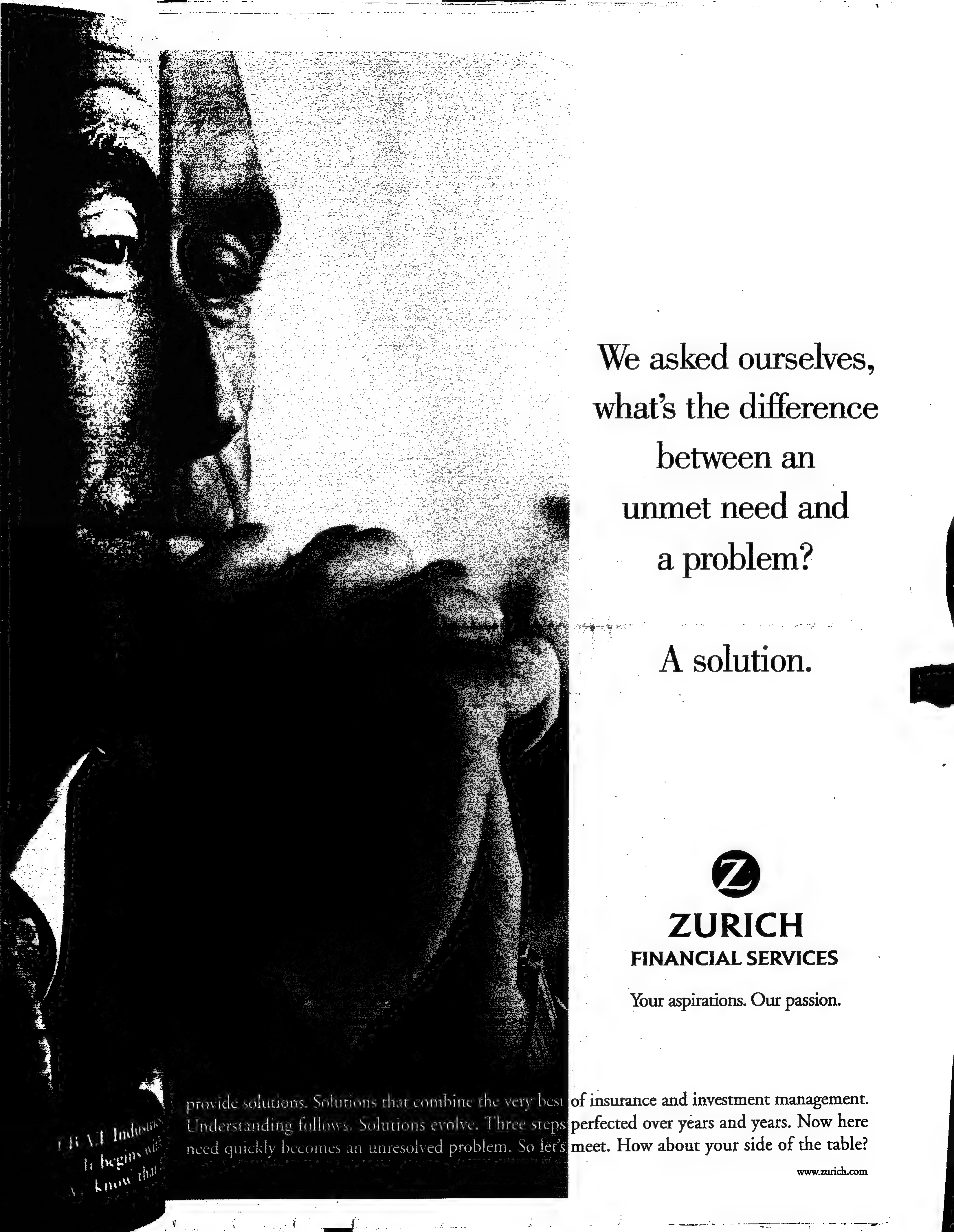

INSIDE TRACK

PROFILE JOHN ROTH, CHIEF EXECUTIVE OF NORTEL

Engineer who switches to data transmission

The man at the helm of the Canadian telecoms equipment group explains to **Edward Alden** how he is leading the biggest project in its history

For an engineer, John Roth has an unusual hobby: he makes stained-glass windows. "I used to know he was on a creative tear because he'd come in with his fingers all bandaged up," says Tom Hennebury, a long-time friend and associate.

Mr Roth took the helm at Northern Telecom, the Canadian company which is one of the biggest in the world telecommunications equipment industry, last October. A 29-year company veteran, he is going to need plenty of sticking plaster to keep the furniture clean in the company's gleaming new headquarters at Brampton, a Toronto suburb.

Less than a year after becoming chief executive of Nortel, he launched what is probably the biggest project in the company's 103-year history. Nortel announced in June it was acquiring Bay Networks, a San Francisco data networking company, in a deal worth about US$7bn when it was concluded last month.

The acquisition is intended to catapult Nortel, which became a global force on the strength of voice switching, into the rapidly expanding business of installing networks to carry data traffic. That market, driven by internet demand, is growing 10 times faster than voice traffic.

"We're looking at what's next. And the internet is what's next," says Mr Roth. "The more we understand it, we can see the need to overbuild, rebuild or bolster today's networks in a way that will carry that type of traffic much better. And we need to become a strong player very quickly in that segment."

Nortel's goal is to be the first company to develop what Mr Roth has dubbed "Webtone," in which customers can access the internet with the same speed and reliability they expect when making telephone calls. Web pages, teleconferences, videos, home shopping and online banking will all be instantly accessible.

While about 75 per cent of North American internet traffic already travels over Nortel's fibre optic networks, those networks were built for voice rather than data traffic. And Nortel, at least prior to the Bay acquisition, was not a leader in designing networks specifically for data.

So far investors seem to be far from convinced by the company's new direction. Nortel's shares dropped 15 per cent after the Bay deal was announced and have continued to fall. The company's announcement earlier this month that it would shed 3,500 of its 80,000 employees worldwide, including closing two UK plants, did not restore confidence. The stock is trading near C$60, down more than 40 per cent from its 52-week high.

'Corporate customers drove us to create the functions they needed'

The decision to buy its way into the data market was a radical departure for Nortel. The company became Canada's largest and most successful manufacturer by developing its own new technologies a little faster than its competitors.

Mr Roth seems an unlikely candidate to break with that tradition. He began his Nortel career as a 27-year-old engineer in the company's Ottawa research lab, and has seen the handsome profits generated by technological breakthroughs.

In the 1970s, Nortel researchers pioneered the digital central office switch, which transformed Nortel from a purely Canadian company to a leading force in US and world markets. Last year 54 per cent of its US$15.5bn in revenues came from the US, 22 per cent from Europe, 15 per cent from Asia and just 9 per cent from Canada.

But Mr Roth has a theory about how the next breakthrough will come, and he says Nortel cannot do it alone. It will happen by developing internal data networks for corporate customers that are then refined to meet the rigorous demands of the public carriers, Nortel's biggest buyers.

The digital central office switch, he says, was developed by selling smaller business communications systems, known as private branch exchange or PBX, to corporate customers.

"Corporate customers drove us to create the features and functions they needed to improve their productivity," he says.

That led to improvements which made those technologies sufficiently robust to meet the requirements of public carriers serving millions of customers.

"We predict the same thing's going to happen here," he says. By developing data networks for corporations, Nortel will be able to design similar systems for public carriers.

Enter Bay Networks. Mr Roth spent the best part of a year talking to US data networking companies like Cisco Systems, Ascend, 3Com, Cabletron and Bay. Throwing out a company like Cisco, which is probably rich enough to buy Nortel rather than the other way around, Bay was the best fit, he says.

Bay has what he calls the world's most reliable router, the key technology for directing data traffic. More importantly, its customers include the most demanding corporations such as banks, airlines and stock exchanges.

Peter Newman, the Canadian business journalist and historian who has written a company history of Nortel, says Mr Roth's decision to acquire Bay was foreshadowed by his role in the company's last big turning point, the decision to enter the wireless business, and particularly the mobile phone network equipment market, in 1991.

"It was a big competition for time and money and he was the one who pushed it," says Mr Newman. "There were a lot of people who just wanted to stay with switching."

As with data networks, Nortel was a latecomer to wireless, and entered the business through a troubled alliance with Motorola that was disbanded after two years. But the gamble paid off handsomely. This year, the wireless business, which made just 3 per cent of revenues in 1992, accounts for 25 per cent, making Nortel the world's third largest wireless equipment company.

But there are fears the Bay deal may be Mr Roth's first big stumble. Bay has long been an underperformer financially; and that, rather than giving Nortel instant credibility in the data market, has saddled it with a big turnround project, says Maribel Lopez, a consultant with Forrester Research in Boston.

Further, while the coming convergence of the telecommunications and data industries has become almost cliché, the corporate cultures of the two industries are vastly different. Critics think Mr Roth's decision to leave Bay as a largely independent arm of Nortel, with its own headquarters in California, will not make the task of integration any easier.

Mr Roth acknowledges the difficulties, but says the two companies are remarkably complementary. Further, he argues, his traditional competitors such as Lucent, Alcatel and Siemens will have to undertake similar mergers or alliances with data companies, or risk dying slowly. And there are not very many partners to go round.

"We'd rather be the first to move than the last to move," he says. Even if it means a little blood on the furniture.

Essential Guide to John Roth

Tinker, Tailor: As an engineer, Mr Roth delights in anything he can take apart and put back together just slightly better than before. His loves include refurbishing old sports cars, among them a 1967 Corvette Stingray, a classic Jaguar and a 500hp V8 Cobra replica.

Company Man: A 1964 graduate of Montreal's McGill University with a master's in engineering, the Alberta-born Mr Roth originally spent five years with RCA. But when he joined Nortel (then Northern Electric) in 1969, he was quickly tagged as a future leader, becoming the company's youngest general manager, youngest vice-president and youngest division president. He headed Nortel's first wireless division in 1991, became president of Nortel North America in 1993 and group chief operating officer in 1995.

Bottoms up: After a decade in which Nortel was partially dismantled by Paul Stern, an outsider who embarked on a disastrous cost-cutting programme, and reassembled by Jean Monty, a Bell Canada chief executive and finance specialist, Mr Roth has put the technicians back in charge. "He's not a command-and-control person," says one close colleague who says nothing pleases the boss more than trading ideas with other strong minds, no matter where they sit in the company.

Worries: Canada is increasingly plagued by a lack of technical graduates and an exodus of the best of them to the US. "Northern Telecom hires a quarter of all available electrical engineering and computer science grads in Canada each year," he told Maclean's magazine recently. "One company should not consume a quarter of a nation's output."

LUCY KELLAWAY

No price for little ones

Pay up front or go for the à la carte option: either way fertility clinics' marketing of babies fails to appeal – full stop

Satisfaction – or your money back. It is, as they say, a no-brainer.

Fertility clinics in the US have started marketing babies in this way. The more aggressive ones promise to get you a live baby in three attempts at in-vitro fertilisation. You pay them $15,000 up front, but if at the end there is no baby, then the clinic gives you your money back. Alternatively, they offer an *à la carte* pricing option: you pay $7,500 for each attempt, whether it is successful or not.

Two business school professors from Wharton and UCLA have been crunching through the numbers to find out which option is the better value. They have reached the not-so-surprising conclusion that from the point of view of the couple, the money-back guarantee is the greater bargain.

Yet for the clinics the reverse is true. As only one in five IVF attempts is successful, the money-back guarantee would seem a sure way of going bust. It is therefore a puzzle that they are selling it so aggressively and appear to be thriving.

The professors conclude that the extent of the marketing has in itself made the difference. It has changed the attitude of couples in the US to IVF. Once upon a time it was seen as a last resort. But now, thanks to the promise of a no-strings money-back bargain offer, IVF is apparently becoming the preferred option for making babies.

These younger couples who are being sucked in tend to get pregnant on the first IVF attempt, making them a better bet for the clinics. The result is that everyone is happy – the clinic is coining it, the couples don't mind having spent $15,000 as they have a baby to show for it.

Only the professors are not happy with this state of affairs. They fear that the clinics are not telling people enough about the dangers of IVF, so that they cannot weigh up the risks properly.

But I have a deeper unease about all this. The idea of life being marketed, risk assessed and promoted in this way does not appeal, full stop.

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That's enough would-be fools, court jesters and corporate clowns. In my column last week I said there might be a role for such people given the way chief executives like to surround themselves with yes-men. Since then I have received assorted letters in green ink from a cross-section of the country's wackos, some offering their services for nothing. At the other end of the scale, I have also been sent a glossy brochure from The Identica Partnership, set up by design guru Michael Peters OBE. For a lot of money he advises big companies to appoint a director of creativity who would ensure that "brainstorming skills are being used to help devise radical step-change strategies and solutions".

Now then: which would you rather have, a director of creativity or a clown who writes in green ink? It's a toss-up.

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Last week's survey from the Institute of Directors produced a lot of headlines about the decline of the long hours culture. Middle managers are still slaving away, but possibly marginally less so than before. Big deal.

Professors fear the clinics are not telling people enough about IVF's dangers

The more revealing news from the Quality of Working Life survey had nothing to do with hours. Instead, buried among the details, was the fact that only 29 per cent of managers think that the decision-making process in their companies is getting faster.

By contrast, they all report continuing "rationalisation" with management layers being stripped out. And the result? Nothing: getting anything done takes just as long as it ever did.

Equally depressing is what managers choose to name as their most pressing concern. It is not about creativity, or harnessing the new flexible spirit of the modern corporation. No: this is the real world, and what bothers middle managers is that they don't know what is going on inside their own companies. Communication – both up and down – is as useless as it always was.

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In the Economist last month was an advertisement from Cambridge Management Consultants. The text was perfect for buzzword bingo enthusiasts: there was on-the-job coaching, unique holistic approach, world class, releasing full potential – you name it. At the end it invited the cream of the consultancy industry to apply for this unique position in a Global Management Consultancy (nice use of capital letters, don't you think?) by writing to a Nick Bunkum. Comedy lovers may note that the address was not in Cambridge but in Ealing.

Lucy.Kellaway@FT.com

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INSIDE TRACK

TECHNOLOGY AVIATION

Precision landing ready for take off

Aircraft congestion may soon be a thing of the past. **Daniel Bögler** on a navigational aid that will have far-reaching implications for flight control

A week ago, a Continental Airlines Airbus MD80 took off from Newark airport in New Jersey and landed three hours later in Minneapolis, Minnesota. The flight was smooth, uneventful – and made aviation history. It was the first time a commercial airline flight had used a Global Positioning System (GPS) both to take off and to land.

GPS technology, originally launched to help the US military track Soviet missiles, is a product of the cold war. It involves a network of 28 satellites 11,000 miles into space, which transmit navigational beams to earth, where they can be tracked by relatively cheap and simple receivers.

While the US Department of Defense still maintains the satellites, much of their spectrum has been given over to civilian applications. Yachtsmen, taxi drivers, farmers, hikers and even treasure hunters off the Cuban coast all use GPS to pinpoint their location.

Many aircraft already have GPS built into their cockpits to help with in-flight navigation. But so far the receivers have not been accurate enough to risk using them for take-off and landing – when 40 per cent of accidents occur.

The fact that this has changed is due to Honeywell, the US controls and avionics giant, and Pelorus, a Canadian company specialising in traditional aircraft landing systems. They have developed a version of "differential" GPS, which is used in several GPS applications to improve accuracy.

This is necessary because the data from the GPS satellites is degraded for security reasons. Rather than just allowing the aircraft's GPS to receive the satellite signals, these are intercepted by a ground station – a hut with a little antenna and a lot of clever software – which recalibrates the signal relative to its own, known position, removes any errors, then beams it up to the aircraft.

According to Mike Smith, head of Honeywell's Business and Commuter Aviation Systems division, this produces a much more precise reading.

"We have been working on this technology since the early 1980s. Our challenge was to make it more accurate and robust," he said. "What we have come up with is one of the most sophisticated applications of GPS to date."

The contrast with today's conventional Instrument Landing System (ILS) is stark. An ILS beacon at the end of the runway sends out

'With GPS, an error of 20ft is iffy and with [these] augmented systems, we are talking about 20in'

a narrow beam into space. Aircraft need to make a long, straight approach to line up at the start of the runway so that they can catch the beam and guide themselves down. Their descent must be at a constant angle.

Using GPS, aircraft can bank and curve to land from anywhere within the airspace. And instead of needing one beacon at each runway end, a single Honeywell ground station can handle all traffic within 30 miles – giving it the capacity to cover not just several runways but several airports.

The improvement in accuracy is breathtaking, according to enthusiastic early users. Fred Abbott, vice-president of flight operations at Continental, says: "It is a million times better, it is just phenomenal. In the old days, an airplane could end up approaching an airport 10 miles either side of its central flight path. With GPS, an error of 20ft is a bit iffy and with [these] augmented systems, we are talking about 20in."

These gains in precision should translate into big reductions in congestion and delays.

Take Newark, which along with Minneapolis is the first airport in the world to introduce Honeywell's GPS landing system. It has the dubious accolade of being the US airport with the most delays per 1,000 flights. The Port Authority of New York and New Jersey, which operates Newark along with John F. Kennedy, La Guardia (also both in the top 10) and Peterborough airports, estimates that delays cost its customer airlines $300m (£187m) a year in direct operating costs,

Smith: 'We have ... one of the most sophisticated applications of GPS to date'

never mind the loss of business from aggravated passengers.

Thomas Bosco, general manager of aviation technical services for the Port Authority, estimates that the GPS technology will cut delays by 30 per cent, by allowing aircraft to be stacked closer together without compromising safety. "The single most important action we can take is to redesign our airspace," he argues.

Because the four airports are so close together, runway use at one currently affects the others. The Honeywell system will eliminate such obstructions. And because aircraft will no longer be blown off course by bad weather or pilot error, they are more likely to stick to flight paths over industrial areas, instead of flying noisily over residential housing.

As so often with new technology, GPS is actually cheaper than ILS. The cost of a ground station is between $300,000 and $500,000 against more than $1m per ILS beacon, while Continental is spending just $140,000 to retrofit a DC-10.

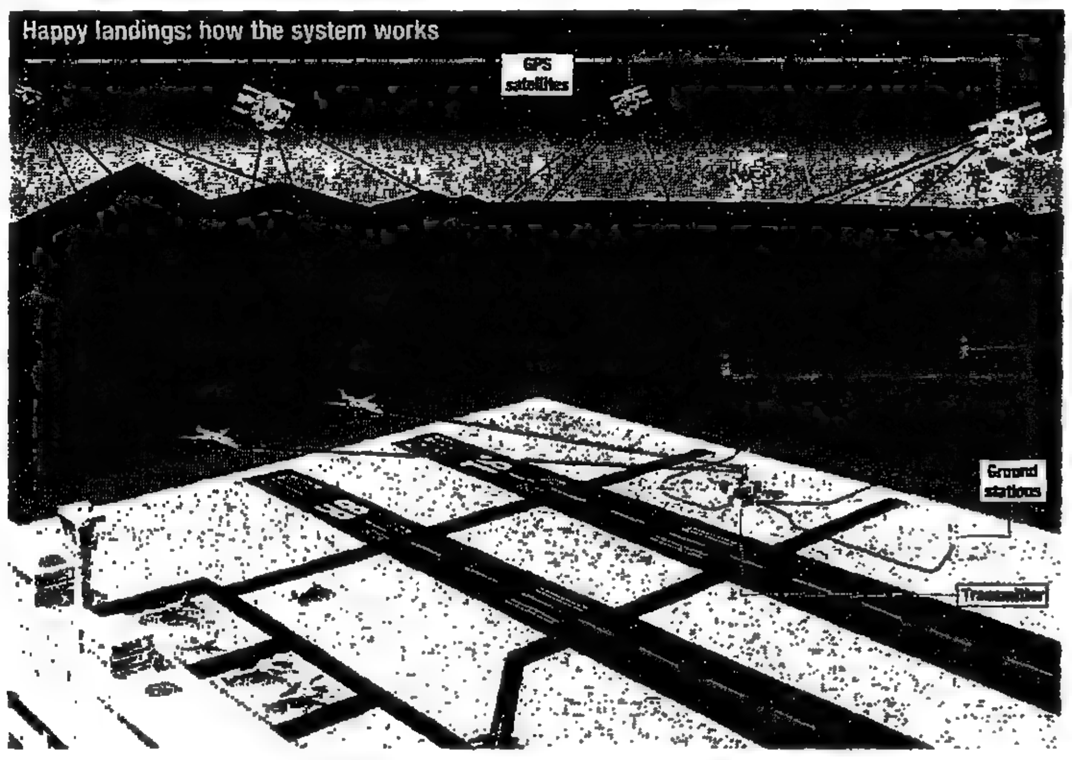
Given all these advantages, the system should find ready adoption. Mr Smith is optimistic its use will increase rapidly within a couple of years, pointing out the fact that the Federal Aviation Administration (FAA), the main US regulator, is sponsoring a consortium of two dozen airports and airlines – including several international ones – to test it.

Honeywell has already formed a new business unit, Honeywell Airport Systems, to exploit GPS technology on the ground, for tracking baggage carts and fuel trucks.

Others are less sanguine. Mr Bosco believes it will take the FAA three to five years just to redesign the New York-New Jersey airspace.

However, everyone agrees that once users see the benefits, the GPS landing system will take off.

Happy landings: how the system works



Fight jargon and win £500

If you hate gobbledegook and want to further the cause of plain English, enter a competition being run, for the second year, by the Financial Times and the Management Consultancies Association.

This is your chance to get your own back on your professional advisers. At the same time you could convert, with a clip of the scissors, the annoying rubbish filling your in-tray into a £500 prize.

We are looking for examples of jargon, gobbledegook and absurdly contorted prose from letters, reports, proposals, brochures, promotional material, books and so on, published over the last year.

Entries can be the work of any business or professional advisers, including:

- Management consultants
- Lawyers
- Accountants
- Bankers
- Business gurus

To enter the competition, simply fill in the form below (photocopies accepted) enclosing an example of the worst gobbledegook written or published since September 1 1997. No individual may submit more than one entry. Examples must be in English and should be no longer than 300 words.

Entries must be received by October 16 1998. The top three entries will each receive a cash prize of £500 and a collection of the best examples will be published in the Financial Times in November.

Financial Times/Management Consultancies Association

Business Jargon Competition

Entry form

Entries must be received by Friday October 16 1998

The competition administrator
The FT/MCA Business Jargon Competition
11 West Halkin Street
London SW1X 8JL

Name of sender

Address

Postcode

Telephone

I attach (please staple) my example for the above competition which was produced by

(Insert name of individual/firm/publication)

On (enter date)

Important You must give your name on this form, but if you do not wish your name to be associated publicly with this submission, please tick this box

TIM JACKSON
ON THE WEB

Taking a swipe at a bar to internet access

Three brothers from Belfast are hoping that barcode technology could be the answer to the problems posed by long site addresses

To anyone who has read *Angela's Ashes*, Frank McCourt's poignant memoir of childhood with an alcoholic father, the news that an internet start-up based in Belfast is called BarWeb may sound like an unkind Irish joke.

But BarWeb, whose site is at www.barweb.net, is not named after the kind of bars where you drink pints of Guinness. It is a company that seeks to solve one of the more irritating features of the web – the tedious need to type in long internet addresses – by means of a technology borrowed from retailing: the barcode.

Conceived by three engineers from Belfast (brothers Eoin, Brendan and Patrick Gorman), the idea behind BarWeb is that instead of typing in a web address, you simply swipe a barcode in front of a scanner attached to a PC.

The number that the barcode represents (typically 13 digits, of which the first seven identify a company and the next six identify one of its products) would be automatically checked in a database to reveal a web address. The PC's browser would then power up, pointing to the right page.

Eoin Gorman, a 47-year-old civil engineer, believes the system would be especially useful for people who access the internet from a television, using a set-top box.

These often have no keyboards, so the user must spell out a web address laboriously using the numbers on the remote control keypad. Put a scanner inside the remote control, says Mr Gorman, and you have a device for surfing the web easily from a TV.

The Gormans have come up with a number of clever applications for this technology. You could swipe a can of baked beans under your remote control, and be transported immediately to a Heinz web page devoted to exciting savoury recipes based on beans.

Swipe the barcode on the back of a business card, and your contact's personal web page pops up. Wave the remote control across the barcode on the back of your hi-fi, and you see an online technical manual. Put it on a newspaper advertisement, and you see a promotional web page for a contest targeted at readers of that day's paper.

So how do they propose to make money from this idea? In association with some private investors and a local internet

You could swipe a can of baked beans under a scanner and be transported to a Heinz web page

service provider, the Gormans have developed a dual business model. They hope to sell the scanners for either £50 or $70 apiece, and then make a second revenue stream from the sites that the barcode surfers visit.

Borrowing from the web terminology of "clickthroughs", which means the number of times that people who see a banner ad on the web click on it and end up at the advertiser's web site, they have come up with the idea of "swipethroughs".

Every time a customer scans a barcode, the BarWeb database would log the details of which site the customer has visited, and bill the site on a tariff starting at five US cents per visit, falling gradually to one cent. So sites receiving 800,000 visits, for example, would pay $28,000 a month.

The database already tallies many companies' barcode information with their web addresses. If a site refused to pay for the site visitors, BarWeb would then sell advertising to competitors wanting to steal its customers.

I'm torn between enthusiasm for the originality of this idea and concern at the issues involved in execution.

For a start, there must be doubt about how long the problem that BarWeb solves will exist. Web access from set-top boxes will probably gradually migrate to keyboards, reducing the need for swiping – and other technologies, such as Centraal Corporation's Real Names, will make it easier to find brand names on the web.

Then there is the hardware problem. BarWeb will make money only if it is installed in millions of homes. Even if the scanner were to cost as little as $5, the company would have trouble convincing computer or set-top box makers to design it into products without proof that the scanner would prompt consumers to pay more for the product.

One solution might be to offer the box manufacturers a share of the recurring swipethrough revenues. Technically, this could be accounted for by varying the software slightly for each maker so that each site visit identified which kind of machine it had come from.

But the biggest worry about BarWeb is about barriers to entry. Eoin Gorman admits that he and his brothers have no proprietary technology, explaining that a patent agent told them it could not be patented.

Without other entry barriers, BarWeb would have only one way in which to capture the economic rent from its idea – strike marketing deals with both big consumer brand owners and large hardware manufacturers.

To build quickly on its lead, however, BarWeb would need lots of money. Mr Gorman says the company is talking to several venture capitalists. But I fear that the £4m ($6.7m) it is seeking is far too little. To do justice to the idea, they probably need four or five times that.

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VICTOR MALLET
FILE FROM JOHANNESBURG

A city's heart comes slowly back to life

Wealthy white residents and businesses have turned their backs on the once-lively downtown area. But attempts at revitalisation are bearing fruit

The Rand Club, founded a year after Johannesburg itself and housed on Loveday Street in one of Africa's most grandiose buildings, has catered to the city's moneyed elite for 111 years. But nowadays its spacious dining rooms and libraries are half-empty, and the club, which boasts an original Annigoni painting of the Queen among its treasures, is urgently hunting for new members.

The reason is simple: the club's clientele has been sucked out of the city centre in the past decade by a mass migration of businesses and wealthy white residents into Johannesburg's northern suburbs.

Johannesburg was never pretty – the discovery of gold is the only reason for its existence on the dusty highveld – but it was always lively. Fifteen years ago, when I worked in the downtown offices of Reuters news agency, the streets were crowded with the black and white South Africans who worked, shopped and drank in the city centre.

Today, many of Johannesburg's early 20th century office buildings and 1970s tower blocks are all but empty. By day, the city is a hub for black minibus-taxis. Street hawkers offer onions and cabbages to passers-by, and shops survive by selling cheap shoes and clothes to commuters from the black township of Soweto. By night, the pavements are deserted.

At the end of this month, the Holiday Inn Garden Court in Smal Street, the last big city centre hotel still functioning, will close. The Carlton, once the heart of Johannesburg, has already been mothballed, and its entrance is surrounded by a double row of metal spikes to keep out intruders; the adjoining office tower has more than 70,000 sq m of space, of which 50,000 sq m are vacant.

Business executives and tourists scarcely visit downtown Johannesburg any more, partly because they are frightened of car hijackings and armed robberies, and partly because there is not much left to do. Investment banks, retailers, consulates, lawyers and accountants have moved north to new business and shopping malls in Rosebank, Sandton and Midrand, halfway to Pretoria.

Only the big commercial banks and some offices of the much slimmed down mining industry remain, along with the provincial government and the Supreme Court – and of course the Rand Club. "How do you move this?" asks club chairman Tom Wixley, gesturing around his vast premises while he hosts a cocktail party to lure some of the country's black nouveaux riches into joining.

"All the people that were able to move out of town have moved," says a gloomy Gerald Leissner, chairman of Anglo American Property Services, which owns the Carlton complex and has reported losses for the past three years.

"There has been almost a total loss within the central business district other than owner occupiers and local government." Many buildings, he says, are worthless. "The commercial heart of Johannesburg is now in Sandton."

The flight of businesses and middle-class residents, although exceptionally rapid, mirrors the hollowing out of some big cities in the US. As the bonds of apartheid loosened in the 1980s, black South Africans and illegal immigrants from countries to the north began to flood into previously forbidden "white" parts of Johannesburg – especially Hillbrow, just north of the centre.

Asked why whites have moved out, Mr Leissner replies bluntly: "Race." That view is echoed by Neil Fraser, executive director of the Central Johannesburg Partnership (CJP), an organisation committed to reviving the city. "The average white secretary will say she doesn't like to walk around the city because it's black."

As in the US, efforts are being made to bring Johannesburg back to life. Hillbrow, the haunt of pimps, prostitutes, armed gangsters and Nigerian drug traffickers, remains a daunting challenge, but the attempt to clean up the central business district is beginning to bear fruit.

There are plans to convert hotels such as the Carlton into cheap apartments, and office rents are now so low that smaller companies are being tempted back into the city from the more expensive suburbs.

Above all, the establishment of "improvement districts" by the CJP – involving the deployment of dozens of security guards and cleaners funded by local businesses to patrol the streets in designated areas – has sharply reduced criminal attacks, while suburban crime continues to increase.

"In 1995 in this area we averaged about 30 muggings a month," says Fraser, whose office is in the Carlton Centre. "In 1997, we had three for the whole year. It's working – rentals in fact are going up and vacancies are going down."

His enthusiasm is shared

Business executives and tourists rarely visit downtown Johannesburg

by Michel Rubinek, an Israeli with a successful downtown diamond-cutting business who has become a South African citizen. This month, he took the bold – some would say eccentric – step of opening a restaurant club and cultural centre for artists and musicians in a rundown part of the city centre.

"As a proud South African, I want to give a bit back," says Mr Rubinek. "Because of that I decided to do something in the worst part of Johannesburg. We're going to bring life to our city – it's one of the nicest cities in the world, but it's been neglected. I'm going against the flow, definitely."

His creation, called The Wall, is housed in a converted warehouse and does not have the dignified grandeur of the Rand Club: the artists emerge on stage from a golden sarcophagus in a dining room decorated with kitsch Egyptian mummies made from scrap metal. But, like Mr Fraser and Mr Wixley, Mr Rubinek believes that revitalising Johannesburg must be based on the recognition that it is essentially an African town, not a white one.

"We want Johannesburg to be safe and clean, but we also want it to be African," says Mr Fraser. "We want it to be a working African city."

Both Mathole Motshekga, premier of Gauteng Province, and Isaac Mogase, the Johannesburg mayor, endorsed that view when they attended the official opening of The Wall.

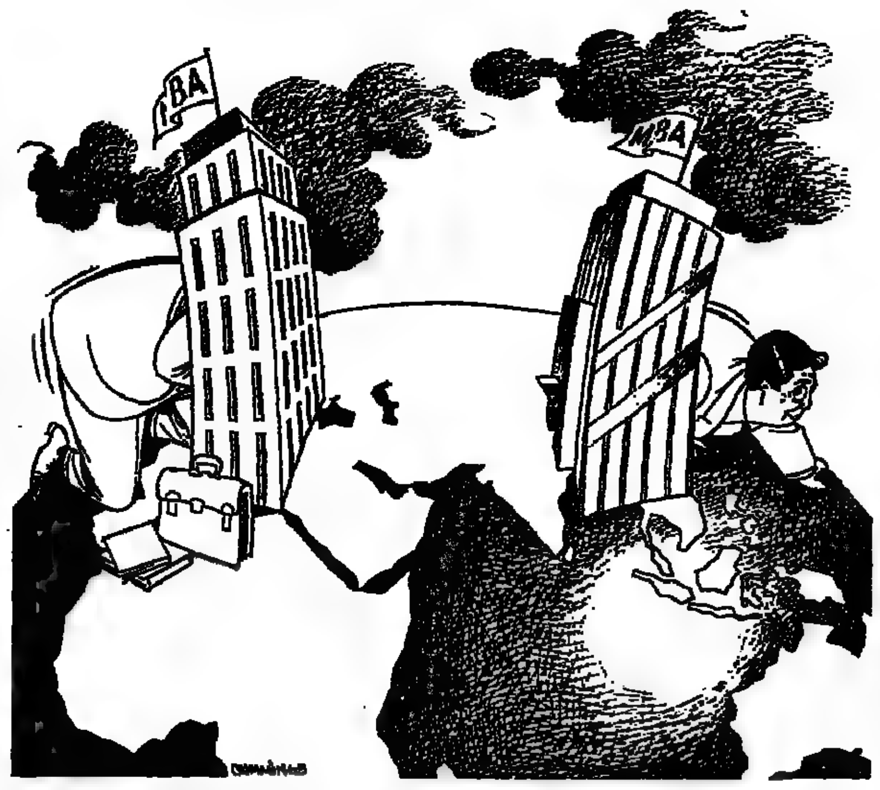
"The downtown area should not be allowed to crumble," Mr Motshekga said. "The heartbeat of the city should be throbbing here."

INSIDE TRACK

BUSINESS EDUCATION INTERNATIONAL TEACHING

A learning curve around the world

Della Bradshaw on Insead's ambitious plans to duplicate itself in Singapore



Imagine a full-time MBA course that could be studied on four different continents. Each participant could decide to study, say, strategy in North America, international trade in Asia, emerging markets in Africa or South America, and finance in Europe.

Unlike today's hurried international executive programmes, where participants hop from conference centre to classroom, each leg of the programme would be taught in a top-notch business school, backed by research facilities and local faculty and linked by videoconferencing and e-mail to resources elsewhere in the group.

It is the vision of the 21st-century business school, producing truly international managers, to which many of today's business schools aspire. Today in Singapore, Insead will announce its first ambitious step towards such a plan.

In January 2000 Insead will launch a full-time MBA programme in Singapore, the same one-year programme that hundreds of international students study at Insead in Fontainebleau, near Paris, every year. Initially the programme will be run in temporary facilities but during the first year Insead's purpose-built business school in Singapore's Buona Vista education district will open its doors.

To begin with the "Insead 2" campus, as it has become known outside Insead, will be half the size or less of its French parent. But within 20 years Antonio Borges, dean of Insead, expects the school to replicate the French one in size and programme mix, as well as in the quality of the programmes taught.

Indeed, one of the two measures Prof Borges will use to determine the success of the project is that in 10 years' time the Singapore campus will have achieved the same reputation, influence and quality as the French campus, with a faculty of equal calibre. "The graduates must have the same set of options in terms of job opportunities," says Prof Borges. The second criterion is that the two schools should be a cohesive whole, run as a single campus. To ensure this, advanced communications technology, including videoconferencing, will be used, which will enable course participants in Singapore (in the afternoon) to talk to course participants in Fontainebleau (in the morning). The technology will also be used for faculty meetings and for executive programmes, which today contribute \$33m (£19.6m) to Insead's coffers.

The existing 113 faculty will teach on both sites and Prof Borges plans to appoint between 10 and 20 additional full-time faculty in Singapore. Many of those will now be working at other institutions in south-east Asia.

The University of Chicago's business school is also planning to open a centre in Singapore and, like Insead, chose the site partly because of the advanced technology there, according to Robert Hamada, the dean. But there have been other inducements. "We're going to Singapore basically because they wanted us," Prof Hamada said recently.

The Singapore government also wanted Insead. It has given the French school several financial inducements, including a knock-down price for the campus site and funds for research – the Singapore government has given S\$10m (£3.5m) in matched funding for faculty to conduct research and write case studies about Asia.

Prof Borges is coy about the cost of the Singapore project, saying the big cost has been in faculty time. But many large organisations have funded chairs and given endowments to help the project.

Insead's decision to push ahead with its Singapore project, in spite of the economic downturn worldwide and in south-east Asia in particular, may cause a few raised eyebrows. But Prof Borges is robust in Insead's defence: the school, he says, is in Singapore for the long haul. "We're always surprised how quickly these downturns happen and how quickly we come out of them again. We should be in Singapore when this happens."

In fact, Insead rejected the option of postponing the first MBA intake for a year, and has moved the project forward as rapidly as possible.

Singapore is not the end of Insead's aspirations. Prof Borges is already talking about possible future campuses in South Africa, North and South America and Eastern Europe. But he will have to wait until well into the next century to see if his Singapore project is judged success or failure.

POTTED THEORIES COMPETITIVE STRATEGY

Separating out the secrets of business success

Businesses had been aware of the advantages to be gained by pursuing a corporate strategy long before Michael Porter, professor of general management at Harvard Business School, investigated the underlying fundamentals of competition in his classic explanatory work, Competitive Strategy.

But Prof Porter's analysis enabled companies to see more clearly the economic mechanisms driving business success. His enduring contribution to management theory is to identify five underlying forces driving competition:

- Existing corporate rivalries.
- Market entry of new competitors.
- The threat posed by substitute products and services.
- The bargaining power of suppliers.
- The bargaining power of buyers.

These five forces, he said, collectively determined a company's profitability. He had outlined the components of a business which can be modified separately to meet or create market demand.

His big idea was to demonstrate that just as a general might give himself a competitive advantage by choosing the ground on which to fight, a company can profit from carefully positioning itself in the marketplace.

In a subsequent book, Competitive Advantage, he suggested alternative "generic strategies": differentiation on the basis of service or quality, enabling a company to charge a premium price for its products, or the option of paring down costs to have the cheapest products in the marketplace.

A third fundamental strategy was to focus on a single approach. Companies that tried to combine differentiation and cost leadership, he observed, rarely succeeded.

It could be argued that one of the greatest contributions of Prof Porter's analysis and prescriptions for business success have been in the way he has helped to establish management as a learnable discipline.

His understanding of why businesses thrive or fail has become textbook reading for managers.

Book: Competitive Strategy, 1980, Simon & Schuster.
Quote: "Strategic thinking rarely occurs spontaneously."

Richard Donkin

NEWS FROM CAMPUS

Playing the electronic merger game

Computer games are all the rage, not just in teenagers' bedrooms but in business schools as well.

Vanderbilt University's Owen Graduate School of Management has developed a series of web-based computer games based on actual merger cases. Three professors from Vanderbilt have developed MathServ, software that simulates the effects of mergers between competing companies. Other software designed by the three professors includes analysing a merger between defence contractors and computing damages in a patent infringement case.

The software is used in both the MBA and executive MBA programmes.
Vanderbilt: US, 615 322 2534

Fulbright looks to Spain

American students who want to study for an MBA in Spain are now the target audience of the Fulbright Commission, which is offering two scholarships for students studying at the Instituto de Empresa, in Madrid, from next year.

The participants on IE's international MBA will want to learn about both European culture and the culture and business practices of South America, according to the course organisers.

Applicants need not speak Spanish but will be expected to learn the language during the programme.
Iese: www.iese.es

● The Fulbright Commission has cut the number of places on its US-UK exchange programme, which enables US students to study in the UK and UK students to study in the US. However, the grant for each successful participant has been doubled.
Fulbright: www.fulbright.co.uk

The Swedish connection

Two British business schools are becoming increasingly involved with all things Swedish.

Cranfield School of Management is training top academics from Gothenburg University, one of Sweden's largest, how also to be top managers in a nine-month programme.

Meanwhile Henley Management College is opening up three sites in Sweden where students can study for the Henley distance learning MBA. Programmes on the three sites in Stockholm, Malmo and Gothenburg are being run together with the IHM Business School.
Cranfield: www.cranfield.ac.uk/som
Henley: www.henleymc.ac.uk/

Finding out about Japan

European managers who want to find out more about doing business in Japan could sign up for the *Meet Asia in Japan* programme which will take place in Japan from November 9 to 19. The programme is run by the EU-Japan Centre for Industrial Co-operation, a joint venture between the EC's Directorate-General for Industry (DG III) and Japan's Miti (Ministry of International Trade and Industry).

There are no tuition fees.
EU-Japan Centre: Belgium, 2 282 00 40

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

BUSINESS EDUCATION

INSIDE TRACK

BUSINESS TRAVEL MOSCOW

A safe bet, despite the Mafia

In the past few weeks, a visit to Moscow has been a disorientating experience. Business travellers have been waking up to reports of mounting tension across the city, with the television news dominated by Russia's slide towards financial – and potentially social – meltdown.

Yet when they venture from their hotels, they find themselves in a city that appears strangely unaffected. For local people, times are undeniably hard, with queues outside the banks and empty shelves in the supermarkets. But there is no sign of unrest, and for foreign business visitors Moscow remains an unexpectedly pleasant – if expensive – destination.

Govert Janzen, a director of the five-star Baltschug Kempinski hotel, says there have been widespread cancellations by tourists but business bookings have held up well. "If people are coming to Moscow, I would advise them to get information originating in Moscow itself," he says. "The international TV coverage tends to dramatise everything. They even show the old shots of tanks in the streets from 1993 – and not surprisingly, people think it's happening now."

The first revelation for many new arrivals is how freely and safely they can walk around the centre of Moscow, even at night. Stories of Mafia violence have severely damaged the city's reputation, and certainly black Mercedes with smoked-glass windows and heavyweight chauffeurs can be seen waiting outside the more exclusive restaurants, hotels and nightspots. But expats emphasise there is little for the legitimate business visitor to worry about.

Andrew Muriel, a partner in the Moscow office of Watson, Farley & Williams, the UK law firm, says: "Without any exaggeration, I can say I feel much safer walking along the street at night in Moscow than in London, or in any city in the US." He told me how the previous Saturday night he and his wife had followed time-honoured Moscow custom by flagging down a private car and paying the driver to ferry them to a social gathering.

A further revelation is the elegance and compactness of the city's centre. Landmarks such as St Basil's cathedral, the Kremlin, the Bolshoi Theatre and the spectacular Cathedral of Christ the Saviour – controversially rebuilt in 1997 after being knocked down by Stalin in the 1930s – are all within walking distance.

Meanwhile, the cheap, safe and efficient underground system, whose stations still have outrageous art deco design, brings outlying districts within easy reach, making events such as the weekend flea market at Izmaylovskiy Park worth a visit. At street level, city-centre travel has become much easier with the reappearance of the metered yellow cabs which almost died out after the fall of communism.

The main effect of the economic turmoil on business visitors has been to make the use of credit cards more difficult: any business accepting a rouble payment on a card will lose heavily in dollar terms if the currency falls further overnight. Some hotels have countered this problem by converting all their bar and restaurant charges into "units", equivalent to the rouble value of the dollar at the time the guest checks out. Several restaurants, on the other hand, have simply decided to close for "technical refurbishment" until things improve. When you find a restaurant that is open, it is a good idea to check which cards (if any) are accepted before eating your meal.

It is best to carry as many payment methods as possible. Visitors should be aware that any cash above $500 must be declared at customs, and that departing travellers' bags are increasingly being searched for concealed dollars at the airport.

Rick Marsland

Tips for a trip to Moscow

Flights: While the legendary queuing at Moscow's Sheremetevo airport has improved, you should allow at least half an hour for passport control on the way in, and at customs on the way out.

Accommodation: Four-star and five-star hotel prices in central Moscow remain steep by international standards (plus 20 per cent VAT). There is a lack of decent mid-price business hotels. The Baltschug Kempinski (7-095 230 6500), just across the Moscow River from the Kremlin, has standard rooms at $350 (£220), suites from $600. Corporate rates start at $300 on request. Others close to Red Square include the Metropol (7-095 927 6000) and the National (7-095 258 7000).

Visas: Formalities for business travellers have changed little since Soviet days, and you will still generally need an invitation from inside Russia. Visas can be obtained from the Russian Embassy, or a specialist agency.

TRAVEL UPDATE

Sydney's airport on the fast track for £700m upgrade

Sydney's Kingsford Smith airport is to get a A$2bn (£700m) facelift to enable it to handle the surge in demand during the Olympic Games in September 2000, *writes Gillian Upton*. By April 2000 it will have metamorphosed into a customer-friendly, design-led, 21st-century airport, handling 40 per cent more passengers.

The redevelopment includes an underground rail link, extra car parking, a flyover and new terminal buildings which will reflect Australia's art and culture. A dedicated railway line between the central business district and the airport will be the last phase of the project to open, in May 2000, and will reduce the journey time to eight minutes.

A new international terminal building will be larger to accommodate more aircraft gates, more baggage carousels, a faster and more reliable automated baggage system, more airline lounges, places to eat and drink, shops and, for the first time, meeting and function rooms. There may also be a hotel.

Compensation for overbooking

Changes in rules requiring airlines to compensate overbooked passengers will be considered at a meeting of European transport ministers this week, *writes Roger Bray*. On the agenda is a demand that compensation must be paid to travellers bumped off flights at foreign airports, provided they are flying with community carriers. Airlines will also be responsible for identifying passengers stuck in the queue when check-in closes. They will have to pay up if they cancel a flight "for commercial reasons", which usually means it is poorly sold. They will not be able to wriggle out of it because the passenger has a ticket issued through a frequent-flyer scheme as they can now. And if the only available seat is in a class lower than that booked, the customer will be free to refuse and still claim full recompense.

BA wins battle for Cape Town flight

British Airways will operate an extra non-stop flight between London Heathrow and Cape Town from late next month. The airline emerged victorious from a head-on battle with rival Virgin Atlantic at a Civil Aviation Authority hearing for the one additional frequency up for grabs under the bilateral air agreement between the UK and South Africa. The new flight will depart from Terminal Four at 6.20pm on Thursdays, arriving at 7.55am the next day. The return flight will leave Cape Town at 8.30pm, reaching Heathrow at 6.20am.

Laptop limbo

The risk that using a laptop in-flight could play havoc with the aircraft's electronics has been widely researched but never proved. The issue has re-emerged with reports that a passenger working on a computer may have caused an autopilot malfunction on a Qantas jet. Safety regulators, including the US Federal Aviation Administration, have gone to extreme lengths to establish or rule out a link between the use of such equipment and aircraft handling or navigation problems, but to no avail.

Airlines routinely ask passengers to switch off these devices during take-off or landing but still encourage their use at other times by installing power points. However, Germany has proposed a ban on the use of laptops in the country's airspace.

Ring here for the technology butler

Kuala Lumpur's Ritz-Carlton has introduced a "technology butler" who solves guests' communications problems. The hotel chain says he will sort out anything from supplying a plug adapter or helping a customer track down information in the internet to setting up a worldwide conference call. The troubleshooter is available from 8am-11pm.

New US-Europe link

American Airlines is to start two new daily services between the US and Europe. On May 4 next year it will launch flights between Amsterdam and Chicago O'Hare and on May 17 between New York and Frankfurt.

Calls to Hungary

Contacting Hungary? Beware, *writes Kester Eddy*. Mobile phones have changed numbers. Any number beginning 0620 or 0630 now requires a 9 before the remaining digits. If calling from abroad, calls change to 36-6209 or 36-6309.

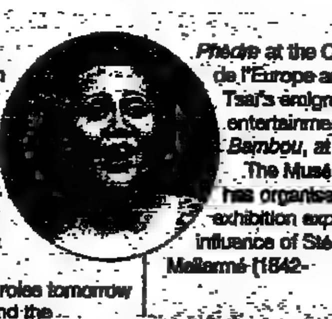
Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	26	24	23	24	27
Hong Kong	31	30	30	29	28
London	16	18	12	17	17
Frankfurt	18	16	17	14	16
New York	26	21	22	21	20
Los Angeles	22	23	25	24	26
Milan	24	22	21	21	21
Paris	18	19	16	15	16
Zurich	16	17	15	13	14

Information supplied by PA WeatherCentre. Maximum temperatures in Celsius

OPENINGS

NEW YORK

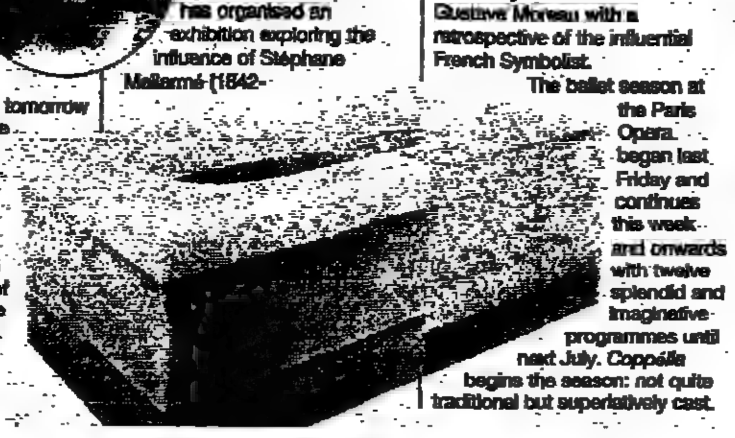


The 1998-9 season at the Metropolitan Opera opens tonight with *Samson et Dalila* starring Plácido Domingo and Olga Borodina (right). Domingo changes roles tomorrow to conduct *Aida*, and the first week also includes *Lohengrin* with Karita Mattila as Elsa.

PARIS

The Festival d'Automne threads a wide variety of theatre and music in the French capital over the next three months. The opening shows are Luc Bondy's production of *Phèdre* at the Odéon Théâtre de l'Europe and Gilbarte Tsai's emigré Chinese entertainment, *Noces de Bambou*, at Bobigny.

The Musée d'Orsay has organised an exhibition exploring the influence of Stéphane Mallarmé (1842-1898) on the literature, art, theatre and music of his time. It opens tomorrow and runs until early January. On Friday the Grand Palais marks the centenary of the death of Gustave Moreau with a retrospective of the influential French Symbolist.



The ballet season at the Paris Opera began last Friday and continues this week and onwards with twelve splendid and imaginative programmes until next July. *Coppélia* begins the season: not quite traditional but superlatively cast.

BERLIN

"Sensation", the exhibition of work by young British artists from the Saatchi Collection, including Rachel Whiteread's "Untitled (Orange Bath)", (left), opens at the Hamburger Bahnhof on Wednesday. It caused extreme reactions when first shown in London a year ago.

LONDON

The South Bank Centre's Takemitsu festival – the first British retrospective of the Japanese composer since his death in 1996 – begins on Friday with a BBC Symphony Orchestra concert.

Opening tonight with *Das Rheingold*, Bernard Haitink conducts the Royal Opera's semi-staged Ring at the Royal Albert Hall. In view of the company's imminent closure, this could be the last chance to hear Haitink conduct Wagner in London.

From Thursday to Saturday at the Barbican Theatre, and not to be missed, is a three-day season by Siobhan Davies' wonderful company with her wonderful choreographies: dazzling piano music by Conlon Nancarrow and Frederic Rzewski, dazzling

dances, dazzling dancers (left).

Tim Supple's adaptation of *Haroun and the Sea of Stories* by Salman Rushdie (above) opens on Thursday at the Cottesloe Theatre. Supple brings his Young Vic team of designer Melly Still and composer Adrian Lee with him. The cast stars Nabil Shaban.

THE HAGUE

To mark the completion of the restoration of Rembrandt's "Anatomy Lesson of Dr Nicolaes Tulp" (1632), the Mauritshuis is mounting an exhibition which charts the development of anatomy pieces as a genre of 17th and 18th century group portraits. It opens on Saturday, and coincides with two Rembrandt exhibitions in Amsterdam (at the Rembrandt House and the City Archives).

WASHINGTON

An exhibition of 70 paintings by Van Gogh, on loan from the Van Gogh Museum in Amsterdam, opens at the National Gallery of Art on Sunday. It includes such icons as "The Potato Eaters" (1885) and "Self-Portrait as an Artist" (1888).

The advantages of going Dutch

Stephen Pettitt talks to conductor Hans Vonk on the eve of his European tour with the Saint Louis Symphony Orchestra

When Hans Vonk took over from Leonard Slatkin as music director and conductor of the Saint Louis Symphony Orchestra, it seemed an unlikely appointment. Vonk counters this view with a list: "Barenboim in Chicago, Masur in New York, Ozawa in Boston, Salonen in Los Angeles, Jaarvi in Detroit, me in Saint Louis ... about the only American conductor now working with a major American orchestra is Tilson Thomas in San Francisco."

But my point is not that Vonk is European. Rather, it is that the contrast between him and his predecessor Slatkin could hardly be more marked. While Slatkin is extravagantly demonstrative, Vonk's style is the epitome of modesty and economy. Those who rely on eyes rather than ears might even be tempted to call him dull. But Vonk, who leads the orchestra on its first European tour in five years, beginning in London at the Royal Festival Hall on Thursday, is unapologetic. Indeed, his shapely, considered performances suggest that he has nothing to apologise for.

"Eduard Van Beinum, Bernard Haitink's predecessor at the Concertgebouw, always used to say that he didn't want to stand in the way of the music. I think that's a very Dutch approach, trying to serve rather than to show how big our egos are, how incredibly interesting we are." He agrees that this Dutch approach might have harmed the progress of his career. "My New York agent says it's not sexy to be from Holland." I mention the football manager Ruud Gullitt, and he laughs before resuming the point. "It's sexy to be from Israel, Russia, those sorts of places. People perceive enigma, mystery, passion and so on. But passion's only a small part of what you are trying to do. When you look at old movies of great conductors, Toscanini and others, they don't jump around all over the place. The fashion started with Bernstein. That was right for him, but then everybody started imitating him. George Szell was once asked about flamboyant conductors. His reply went something like this: 'One day we will put a big black screen between the conductor and the audience, and then we will talk.'"

So has Vonk been true to type and imposed a solid diet of Austro-German repertoire on his St Louis audience? "Another thing about Dutch conducting tradition is that we are interested in not only German but also French music. And I'm very much interested in new things. I like to experiment. But for some reason people don't want to hear or know that, they put you in this box and don't want you to tell them that you are interested in anything else."

Yet the pieces being taken on the tour – Beethoven's *Eroica*, Schumann's Cello Concerto (with Lynn Harrell), Bruckner's Ninth Symphony, Sibelius's Violin Concerto (Midori) and Barber's *Adagio* – are hardly breathtakingly bold. Vonk points the finger at timid promoters. "Our list of possible pieces included Schoenberg's *Pelléas and Melisande*, the complete *Firebird*, many things which were a bit out of the ordinary. The promoters say yes but this orchestra has already done this, that one has already done that, you will not get an audience for the other. They put you in the position of taking a tour of safe repertoire or leaving it. But I think that if you play safe all the time you will lose anyway."

'I like to experiment . . . you try to mix things. What I hope is that the audience will trust me in my judgment, that they will come with me'

Even so, there are limits to adventure. Vonk points out that Slatkin would sometimes test his audiences beyond breaking point with whole programmes of music by the likes of Elliott Carter and Roger Sessions. "You have to balance it. Leonard's audiences were very loyal, but in the last years there was some dissent. So I made my programmes more of a mixture. I have nothing against being friendly to the audience."

Nevertheless there have been modest experiments. Last year, for instance, the orchestra commissioned a piece from the young Dutch composer Peter Schat. Messiaen's Turangalila Symphony, never before played in St Louis, is scheduled for this season, and under Vonk St Louis has heard what, incredibly, was its first ever St Matthew Passion. "We had to work hard publicity-wise to get the people in the hall for that. You try to mix things. What I hope is that the audience will trust me in my judgment, that they will come with me."

Did he find himself having to change radically the nature of the orchestral sound when he arrived? "The only thing not of my taste was that the brass was very heavy, too dominating. The rest I found a perfect instrument, a fantastic ensemble. Strangely enough they remind me very much of the Dresden Staatskapelle." Vonk spent a testing period from 1985 as Musikdirektor of the Dresden Staatskapelle, during which the communist authorities forbade his players to speak with him. Even so, he was considered a musical success. "They used to say about Dresden that it was one big string quartet of a hundred people. Leonard turned Saint Louis into that kind of group. They're very good at adjusting to different colours, styles, levels of transparency." And at giving the impression of playing conductorless chamber music, no matter how vast the work? "Right, that's exactly the idea."

Hans Vonk: 'My agent tells me it's not sexy to come from Holland' Christian Steiner

The well-chosen cast as a motley selection of people delayed at an airport Alastair Muir

A one way ticket only, please

OPERA

RICHARD FAIRMAN

Flight
Glyndebourne Touring Opera

The passengers embarked on the plane, the pilot started the engines, the plane gathered speed down the runway and then soared into the clouds. It was a perfect take-off – and the audience had not even left their seats.

After the stunning production it gave to Birtwistle's latest opera a few years back, Glyndebourne Touring Opera is getting a reputation as the best place to go for a premiere. To open its 1998 season the company has now done just as spectacular a job for Jonathan Dove's *Flight*: a well-chosen cast, top-quality orchestral playing, and a production that gave the opera as good a send-off as its composer could possibly have hoped.

Although this may be the first time that Dove has come to the notice of most opera-goers, he is no novice to the theatre. The job of cutting big operas down in size (Wagner's *Ring* in two evenings) for City of Birmingham Touring Opera may have been an unusual introduction to the art-form, but it was a useful one. Incidental music for productions at the National Theatre and two small-scale operas then prepared him for the real thing.

The audience's verdict on *Flight* at the opening night last Thursday was a smash hit – plenty of whoops of delight, even if one always suspects at such events that the theatre is packed with well-wishers. A popular opera, however, it certainly is. If music drama in the 20th century has tended to divide between the European (heavy and hard-going) and the American (tuneful and populist), then in the world of opera Dove is a transatlantic frequent-flier.

All the composers who come to mind while listening to *Flight* are American: John Adams for the orchestral writing, Sondheim for the vocal lines, Bernstein for the energy, Menotti for the plot (a close relation of *The Consul*). But the mix works and Dove has the essential opera-composers' gift of being able to pin down moods and characters in an instant. Within its stylistic limits his music is quite brilliant.

Within its stylistic limits, Dove's music is brilliant. It's just a shame it has been expended on such a shallow subject

It is just a shame it has been expended on such a shallow subject. The opera is set in an airport waiting-room, where a refugee has been stranded. Real-life provides its own example of this with one refugee who was stranded at Charles de Gaulle airport in Paris for years (and, for all I know, may still be there). In television interviews he complained that life was boring because he knew nobody very well and had no purpose except trying to leave.

He might sympathise with *Flight*. April de Angelis's libretto has no characters of any depth and no aim other than raising a laugh. Hers is the world of the television sitcom, and a weak one at that, at its happiest whenever there is a cliché to hand. At first it is terribly amusing to hear singers in grand opera say "Have a nice day!", but the joke wears off as one starts to realise there is going to be nothing else to it.

Among the motley selection of people delayed at the airport are Mary Plazas and Richard Coxon as the young couple heading off on holiday, Ann Taylor and Garry Magee as the ("We're always smiling") cabin crew, Anne Mason and Steven Page as the diplomat husband and wife heading to Minsk, and Nuala Willis, amusing as ever, as the Older Woman. Christopher Robson, playing the outsider of the group and therefore a counter-tenor, made a big impact with the refugee's aria.

David Parry conducted the GTO orchestra with plenty of life. Richard Jones's production came with super sets by Giles Cadle and bags of humour. If only there was some substance to it all. I fear a one-way ticket on this *Flight* will be quite sufficient.

'Flight' is on tour around England until December 10. Glyndebourne Touring Opera season is sponsored by Pearl.

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen. Cast includes Heinz Kruse, Jeannine Altmeyer and Henk Smit; Sep 30

BIRMINGHAM

CONCERTS
Symphony Hall
Tel: 44-121-212 3333
City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Schubert, Mozart and Strauss; Sep 29, 30

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
La Gioconda: by Ponchielli. Conducted by Bruno Bartoletti in a staging by John Copley. The title role is sung by Jane Eaglen; Oct 1

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Radio Symphony Orchestra Frankfurt: conducted by Hugh Wolff in Beethoven's Missa solemnis; Sep 30

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Sep 29; Oct 1, 3

LISBON

OPERA
Expo '98
Tel: 35-11-831 9500
O Corvo Branco: world premiere of a new opera by Philip Glass, with a libretto by Luisa Costa Gomes. The production, which will mark the end of the Expo arts programme, is directed by Robert Wilson, and is a co-production with the Grand Théâtre de Génève; Jules Vernes Auditorium; Sep 28, 29

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Richard Hickox conducts a series of works by Bruch; Oct 1, 3

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 30; Oct 3

Royal Albert Hall
Tel: 44-171-589 8212
● Das Rheingold: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Philip Langridge and Ekkehard Wlaschiha; Sep 28
● Die Walküre: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Rita Cullis, Kim Begley, Stig Andersen and Hildegard Behrens; Sep 29
● Siegfried: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes John Tomlinson, Stig Andersen, Graham Clark and Anne Evans; Oct 1
● Götterdämmerung: by Wagner. Semi-staged Royal Opera production conducted by Bernard Haitink. Cast includes Stig Andersen and Anne Evans; Oct 3

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● Hallé Orchestra: conducted by Owain Arwel Hughes in works by Vaughan Williams, Holst and Elgar; Oct 1
● Royal Liverpool Philharmonic Orchestra: conducted by Marco Zambelli in a Russian programme including works by Borodin, Tchaikovsky and Mussorgsky. With piano soloist Paul Lewis; Oct 2
● Saint Louis Symphony Orchestra: conducted by Hans Vonk in works by Barber, Schumann and Beethoven. With cello soloist Lynn Harrell; Oct 3

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Simone Young in works by Janáček, Martinu and Dvořák; Sep 30

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Kurt Masur conducts Beethoven – The Complete Symphonic Cycle. Programme IV (Sep 28), Programme V (Oct 1, 2, 3)

EXHIBITIONS
Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
Bonnard (1867-1947): originated at London's Tate Gallery, this major retrospective focuses on around 100 works produced between the 1890s and 1940s. Includes landscapes, still lifes, a series of nudes, and several self-portraits; to Oct 1

Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia. Includes works by Rembrandt, Dürer, Matisse and Picasso; to Jan 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Aida: by Verdi. Plácido Domingo conducts a production by Sonja Frisell, with a cast starring Maria Guleghina and Vladimir Bogachov; Sep 29; Oct 3
● Lohengrin: by Wagner. Designed and directed by Robert Wilson, with costumes by Frida Parmeggiani. James Levine conducts and the cast includes Deborah Polaski and Ben Heppner; Sep 30; Oct 3
● Samson et Dalila: by Saint-Saëns. New staging by Elijah Moshinsky, with sets and costumes by Richard Hudson. For the season's opening night performance (tonight), James Levine conducts and the cast includes Plácido Domingo and Olga Borodina; Sep 28; Oct 1

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Christof Perick in works by Strauss and Mahler; Oct 1

DANCE
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Cuban National Ballet: Swan Lake, in a staging by Alicia Alonso; Sep 28, 29

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
A Streetcar Named Desire: world premiere of a new opera by André Previn, with a libretto by Philip Littell based on Tennessee Williams' play. The staging is by Colin Graham, with designs by Michael Yeargan. André Previn conducts and the cast includes Renée Fleming and Rodney Gilfry; Sep 29; Oct 2 (Previn and Fleming are replaced by Patrick Summers and Susannah Glanville for the October performances)

TOKYO

EXHIBITION
Metropolitan Art Museum
Tel: 813-3823 6921
The Carmen Thyssen-Bornemisza Collection: touring show of 94 paintings, ranging from the 18th century to the early 20th. Highlights include 19th century Spanish works; to Oct 4

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse and Picasso; to Jan 3

TV AND RADIO

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BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW JOHN LIPSKY

Solid case for a cut

The Fed does not need to look abroad for good reasons to lower interest rates

On Tuesday, September 29, the Federal Reserve's Open Market Committee will meet amid almost unprecedented global financial and economic stress. The principal issue is whether the Fed will lower its interest rates.

The Fed's decision this time is about as easy as these things get: the funds rate should be cut by at least 50 basis points to 5.0 per cent, and further cuts should follow in the coming months.

Oddly, a lively debate persists about whether the Fed should act at all; various pundits, analysts and academics have been opining that a Fed easing either is premature or might be downright inflationary. Others worry that a rate cut might fuel an asset price bubble, or would be an unjustified attempt to shore up financial institutions.

Among those advocating a rate cut, many have suggested that the justification is their concern about problems outside the US. However, there is overwhelming domestic evidence that rate cuts totalling at least 100 basis points are justified already. Moreover, additional rate declines will probably be needed in the coming quarters, as US growth stagnates.

Looking first at fundamental developments, the case is clear: economic growth is slowing sharply, and the risks are heavily weighted towards additional measures.

The US this year has suffered the largest current account deterioration in history, and the risk is on the side of further weakening. Thus, the economy's expansion so far this year has relied almost entirely on consumption gains.

This year's spending increase, however, has been attained only because American households in the aggregate spent virtually every penny they received in income. Without a doubt, such behaviour was inspired by the impact of recent and expected future wealth gains associated with a rapidly rising stock market. With the stock market's recent sharp reverse wiping out the past year's advance, however, the key explanation for this historically unprecedented free-spending, no-saving posture has evaporated.

Nor is there much reason to expect a significant new stock market advance, even if the Fed eases rates. Rather, equity values will be subject to strong cross-currents.

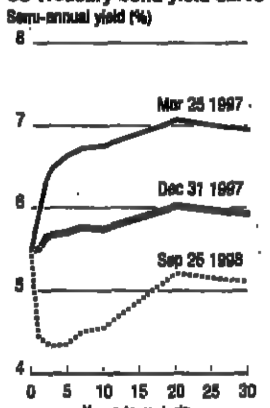
Although the risk-free rate of return available to savers has dropped (via the powerful Treasury bond rally) corporate earnings are suffering. In fact, a research forecast by Chase anticipates a modest drop in corporate earnings for the year as a whole.

Not only do the balance of risks point to more saving and weaker consumption, but job and income growth are slowing, perhaps sharply. Thus, the case for a spending slowdown is clear-cut. The widely followed payroll figures of job growth have indicated only a modest slowing in US employment gains in the past few months.

However, the household employment data – by design and by experience more sensitive to trend shifts than the payroll sample – have registered no job growth at all over the past six months. At the same time, the increase in aggregate hours worked has fallen by at least half from the rate registered during the past two years.

US Treasury bond yield curve

Semi-annual yield (%)



Another source of strength has been a rapid increase in capital investment. Yet capital goods spending is poised to slow in the coming months. The exploding trade deficit is hitting manufacturing hard.

At the same time, the cost of capital is rising in response to the recent violent widening of credit spreads – that is, the margins over Treasury bond yields charged to private borrowers – together with the weaker stock market.

Public officials and others have been persistently surprised by the lack of inflation pressures. Even more impressive, a broad range of price measures such as the gross domestic purchases deflator suggest that inflation is in fact closer to 1 per cent than the 2 per cent rate reflected in the consumer price index.

Import prices have been falling for the past two years, and significant further drops are still to come. This influence, together with the prospect of slowing domestic demand, suggests that 1999 US consumer price inflation will fall to about 1 per cent.

Financial indicators also support a significant Fed easing. Investors have long since come to the same conclusion. What other explanation can there be for the unprecedented inversion of the Treasury yield curve without a Fed tightening? Such inversions usually result from Fed rate hikes, and typically precede cyclical slowdowns. At present, a substantial Fed rate cut would be needed just to bring the funds rate into line with market rates.

Federal Reserve officials – along with many others – track the real (inflation-adjusted) funds rate as an important policy indicator. Even if inflation is considered to be as high as 2 per cent, the real funds rate is about 3.5 per cent – higher than at the end of the 1994-95 tightening.

Alan Greenspan, Federal Reserve chairman, has acknowledged on a number of occasions that by keeping the funds rate unchanged during the past year as inflation fell there was a de facto tightening of monetary policy.

On the other side of the balance of risks, the arguments raised against a domestically justified rate cut seem to be based on narrow adherence to traditional policy rules.

Monetarists argue that recent rapid money growth by definition will lead to future price increases. Analysts whose expectations are based on their faith that a stable trade-off exists between falling unemployment and rising inflation continue to search with a microscope for signs of an allegedly inevitable inflation pay-back for the current low unemployment rate.

In fact, neither of these rules has performed reliably for some years.

The most credible monetary policy rule – the Taylor Rule developed by Professor John Taylor of Stanford University – indicates that a Fed rate cut is appropriate at this time.

The Taylor Rule has a commonsense basis, as it calls for the funds rate to be calibrated in response to shifts in inflation and to changes in excess capacity.

Since 1987, the Taylor Rule has provided a reasonably reliable guide to Fed policy. Perhaps it is no coincidence that during this period Fed policy itself has achieved unprecedented credibility. For that credibility to be preserved, however, a substantial easing is required – and quickly.

The author is chief economist and director of research at Chase Manhattan Bank.

LETTERS TO THE EDITOR

US money supply aggregates point to a pending inflation war

From Mr Howard B. Garber.

Sir, The old adage, "Those who fail to understand history are doomed to repeat it", definitely describes the hand-wringing detailed in Edward Luce's article, "Yielding worrying signals" (September 22). If the ghost of deflation is indeed stalking the bond markets, it will be the first time in history that deflation makes its grand appearance to the applause of wildly expanding money supply aggregates. On the contrary, inflation, especially in the US, should be our future concern.

Almost 20 years ago, Margaret Thatcher and Ronald Reagan delivered significant marginal tax cuts to their respective electorates. At the same time, Paul Volcker, the then chairman of the Federal Reserve Board, and the European central banks gave the world declining money supply growth rates.

The result has been supply-side economics, abundant world-wide sector related price decreases.

Low inflation and excellent nominal economic growth was the last war that central bankers fought. A war that they have won. Job creation and high stock market values, in the US and Europe, are a testament to that victory. Bond yields and commodity prices are now engaged in a selling climax having been purged of almost 20 years of inflationary expectations.

The next war is within sight, however. It takes the form of an unusually high growth rate of US money supply aggregates. M3 and Money Zero Maturity (MZM) aggregates have grown by mid-teen rates for more than a year. M2 has grown by double-digit growth rates for several quarters. M1 is presently growing at an 8 per cent annual rate. Monetary growth rates such as these are not the ingredient of deflation. History teaches that the deflation of the early 1930s was caused by that period's steeply declining money supply aggregates. Current rising US monetary aggregate growth rates resemble the early 1970s and are an ingredient for inflation. History also teaches that monetary aggregate growth precedes inflation by about 18 months. Thus, rising prices in the US should begin in early 1999. What occurs in the US will undoubtedly later occur worldwide.

Alan Greenspan, Federal Reserve chairman, is a career anti-inflationist from the inflation-wary Gerald R. Ford administration. He certainly remembers history well. European central bankers know their inflationary history as well. It can only be hoped that the combined efforts of these central bankers will provide the proper wherewithal to fend off the next war.

Howard B. Garber,
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Chicago, IL 60614, US

Clinton will undermine achievements by staying

From Mr Alistair Wellmann.

Sir, Dr Anne-Carole Chamler's assertion (Letters, September 22) that "President Clinton's sexual peccadilloes are a trivial issue..." and that "his vital role... should be the overriding consideration" seem to me to be contradictory. Most fair-minded people would agree with Dr Chamier's view that there are more pressing matters, such as the much-vaunted global economic meltdown, that we should be concerning ourselves with.

Yet herein lies the point: while we all know we shouldn't care about some naive, love-struck intern – we all do. I am an admirer of Bill Clinton's considerable achievements. It is precisely because I believe in what he has achieved that I would rather he went. For it is a certainty that if he doesn't, his presence will weaken the office of president forever and profoundly limit his ability to consolidate his achievements in America and, more importantly, in the rest of the world.

Alistair Wellmann,
94 Wavendon Avenue,
London W4 4NS, UK

Perverse attitude to EU reaches new heights

From Mr John Edward.

Sir, The British response to the European Central Bank's decision to leave national symbols – such as the Queen's head – off future euro notes takes the perversity of our attitude to the EU to new heights. After all, should the UK ever join the single currency, the coins will have all the space needed for a royal profile.

Furthermore, a substantial proportion of the UK population rarely even sees the Queen on notes. In Scotland, the three clearing banks feature everything from oil rigs to "sleekit, cow'rin, tim'rous beasties" on notes, but never the sovereign's smile.

John Edward,
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35 square de Meeus,
B-1000 Brussels, Belgium

Tunnel vision on complex problems

From Mr Jeff Schubert.

Sir, In her article "Mardi Gras, then Lent" (September 7) Chrystia Freeland examines the proposal for a currency board in Russia and writes that "Government advisers also hope that printing money now would soften public opinion for the introduction of a currency board in January, by creating a wave of hyperinflation which Russians would be desperate to stop, by whatever means".

This attitude reminds me of a conversation I had in Moscow in 1993. A prominent western adviser to the Russian government told me that when he and an associate boarded a flight in London for their first visit to Moscow they had the view that economic reform needed to be carried out gradually and with care.

However, during the flight they discussed the situation and by the time their aircraft landed in Moscow they had changed their minds. They had decided that it was best to implement reform as quickly as possible, including the use of "shock therapy". They thought there was a "less than 50 per cent chance of this working, but it was worth a try".

Economists all too often display tunnel vision in looking at complex problems and seem unable to grasp that something that is "worth a try" may in fact bring about a "by whatever means" totally different from what they imagined. It may be much more nasty and authoritarian.

Jeff Schubert,
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ECONOMICS NOTEBOOK HUGO DIXON

The lifeboat is off course

IMF rescue packages are inadequately funded and impose conditions guaranteed to make them ineffective. Creditors must be persuaded to join in salvage operations

The International Monetary Fund has been widely criticised for its failed rescue packages – particularly in Russia and Indonesia. But little criticism has focused on perhaps their biggest defect: the maths does not add up.

With global financial turmoil far from over and suggestions that a rescue package is being assembled for Latin America, it is essential lessons are learnt. Another inadequatelyfunded bail-out could be blown apart by the markets.

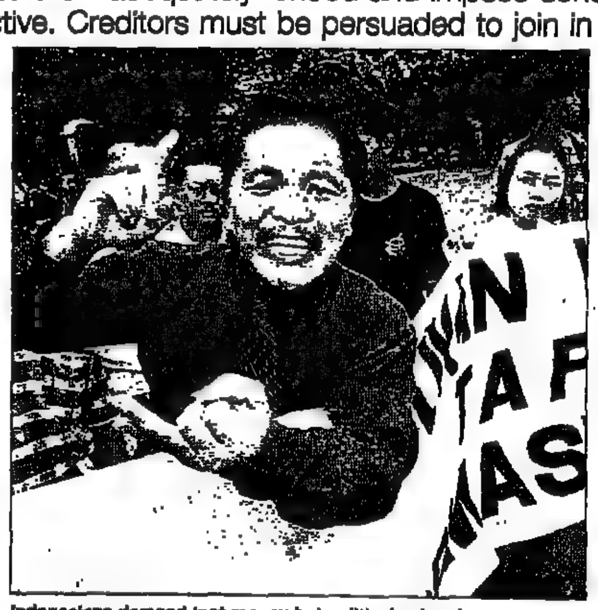
In both the recent packages seemingly huge sums of money were promised – \$23bn for Russia and \$43bn for Indonesia. But, in fact, the offer from IMF and its Group of Seven allies was not what it seemed.

The immediate source of the crisis in both countries was an inability to pay debt: \$40bn short-term government debt and interest payments in Russia; and more than \$70bn foreign-currency corporate debt in Indonesia.

The IMF programmes had three defects. First, there was not enough money to pay off all the debt. Second, the money was not available quickly enough but was, instead, to be dribbled out as the country delivered on policy commitments. Third, the terms of the deals meant most of the funds could not even be used to pay the debts.

What then was the money for? In theory, it was to build confidence. The idea was that private creditors would be fooled by the headline numbers into thinking the countries no longer had a repayment problem and would be happy to roll over the debts. This might have worked – if Indonesia's President Suharto had not backtracked on policy commitments and Russia's Duma had not voted down the IMF-agreed fiscal tightening. When political obstacles appeared, investors quickly figured that the IMF's sums did not add up, and ran for the exits.

In the circumstances, the money was used in a vain attempt to prop up the currency. In Russia, some \$9bn was wasted in this way.



Indonesians demand 'not money but political reform' AP

There are two important lessons to be learned. The first is that the IMF should stop providing funds to support currencies. That might seem odd. After all, weren't the Asian and Russian crises all about plummeting currencies? Well, not exactly. The heart of the problem in each case was a debt crisis. Currency crises accompanied these and, to some extent, complicated them. But they were not the main event.

If the IMF decides to lend money, it should be available to pay off debt. It should also be provided quickly enough and in sufficient quantities

This is not to say that maintaining a fixed exchange rate is necessarily bad. It can, for example, help squeeze hyperinflation out of an economy. But it should by now be clear that, in an era of free capital flows, exchange rates are extremely vulnerable to swings in confidence. They can only be held where the authorities are willing and able to follow extremely tight macroeconomic policies. If a country is prepared to undergo such harsh disciplines using its own resources, fine. But gambling the IMF's resources on such an adventure is not sensible.

The second lesson is that the IMF should be sure its maths makes sense. If the IMF decides to lend money, it should be available to pay off debt. It should also be provided quickly enough and in sufficient quantities.

This does not mean the IMF should lend unlimited sums immediately without conditions. It would not be sensible to provide cash unless there was a good chance of getting it back. This means the country concerned has to give credible assurances that it is going to pursue appropriate economic policies.

If such assurances can be given and the IMF has plenty of cash, fine: act as a lender of last resort. But it is more likely that the IMF will not be completely confident that policy promises will be met, and/or that it will not have enough money to finance a full bail-out.

In such a situation the solution is to bail *in* – actively co-opt – the private creditors at the same time that it provides money. A traditional, inadequately funded IMF programme with conditions attached would work if banks and bondholders simultaneously rolled over enough of their debts – or even forgave part of them. In a sense, this is what the IMF and G7 did in South Korea (a partial success story): the biggest banks were told that no official money would be provided unless they extended their loans too.

The snag is that, unless creditors agree, such action would amount to a debt moratorium. And the IMF is reluctant to go down that road. There is a moral issue: borrowers ought to repay their debts. Then there is concern about contagion: if one country did this, investors would fear others might copy; if creditors then panicked, that could tip yet more victims over the edge.

These would be fair points if the problems of emerging market debt could somehow be magicked away. But in the real world, there is something to be said for making creditors bear some of the pain. At least, they would then be less likely to repeat their mistakes, reducing the moral hazard problem. It might be tricky to secure investors' agreement to a moratorium, but *in extremis* one could be imposed.

And a debt moratorium would hardly be a get-out-of-jail-free card. The countries concerned would still need to agree a policy programme and face stigma in financial markets.

True, following an IMF-blessed moratorium, there would probably be investor jitters elsewhere. But only countries with similar debt problems would face a real crisis. And the same mechanism could be used to rescue them.

None of this would be ideal. But the maths would add up. Investors would receive more of their money back than in a Russian or Indonesian-style meltdown. And, as far as contagion is concerned, an orderly moratorium would surely be better than another disorderly collapse.

FINANCIAL TIMES

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Monday September 28 1998

Life after Helmut Kohl

Last night's election defeat of Helmut Kohl, the longest-serving German chancellor since 1945, marks the end of an era. He was never a great orator, nor a particularly clear and decisive thinker, but he was a politician of conviction, and his convictions have shaped both Germany and Europe as they are today.

Gerhard Schröder, the victorious challenger for the Social Democrats, is the first man to defeat an incumbent chancellor in the life of the Bonn republic. That is no mean achievement. But he has yet to persuade the outside world, and many Germans, that he has qualities to match those of his predecessor.

He faces great challenges to put together a coherent government. It may be a centre-left deal with the environmentalist Greens, who are divided in themselves between pragmatists and fundamentalists. Or he may yet have to form a grand coalition with the outgoing Christian Democrats. That would involve hard compromises on policy. On top of that, Mr Schröder must bind in his own party, which he does not control.

The two leitmotivs of Mr Kohl's 16 years in office were European integration, and German unification. It was his commitment to the former which ensured that Germany achieved the latter, without arousing the suspicion and hostility of its former wartime adversaries. And in seizing the opportunity to reunite Germany in 1989 when the Berlin Wall came down, Mr Kohl ensured his place in history.

On one level he was always a manipulative politician, seeking to coax his often fractious coalition government through the shoals of consensus-building. He had to compromise on goals of domestic reform, and on attempts to overhaul Germany's cumbersome tax and welfare systems. But he did not lose sight of his longer-term goals in the process, including his determination to ensure the creation of a single European currency, as the cornerstone of the European Union he sought to build.

Mr Schröder has yet to reveal much of his fundamental agenda. He has been driven thus far by a determination to oust his rival, and not to give away too much policy detail in doing so.

He heads a party which shares Mr Kohl's commitment to European integration, and to a strong transatlantic relationship. On foreign policy, there is little between them, unless the anti-Nato elements in the Greens are allowed too much influence.

At home, however, the tenor of the new government will be less clear. Oskar Lafontaine, the mercurial SPD leader, looks likely to be finance minister, which will not please the markets. Unless Mr Schröder moves fast to give his government a clear sense of direction, he could find himself a hostage to his fractious friends and allies.

Euro ignorance

Several important conclusions emerge from the FT's opinion survey of UK businessmen on the euro, reported today. Perhaps most significant, and certainly disturbing, is the level of ignorance of plans for setting up the European single currency.

Even so, the survey showed a generally positive attitude towards British membership. Nearly three-quarters thought joining the euro would be good for their businesses, against only 16 per cent who were completely against. Businessmen generally believed that membership would result in lower interest rates and greater stability. Most would like to join at a lower exchange rate than at present, but businessmen's emphasis on stability suggests that there is no appetite for a return to higher inflation and steady devaluation outside the euro zone.

Yet around 40 per cent said they were not well-informed about the setting up of the euro and British plans for membership. This is hardly surprising, for the British government remains studiously vague about its intentions. The five conditions it set for British entry were so broad that they might be used to justify staying out indefinitely – or joining as soon as possible.

In reality, Tony Blair, the prime minister, appears to be waiting for a lead from industry. But our survey suggests that many businessmen would like the government to take the lead, as indeed it should. One practical reason for this would be to give greater urgency to preparations for the euro. The survey shows that more than half of companies are making no preparation for the birth of the euro on January 1. But, in or out, businesses must be prepared for a tougher competitive environment.

The government's rather silly advertisement campaign to increase awareness falls far short of what is needed, however. Businesses and the markets are much more likely to respond to a sense that the government knows clearly where it wants to go and has a plan to get there.

The Blair government has often said financial stability is a pre-condition for sustainable economic growth: This might be achieved outside the castle walls, but it would be much easier within. Since the euro is likely to get off to a robust start, the UK government faces a stark choice: In or Out. And the dangers of remaining out are the greater.

Clearly, there will be difficulties in aligning the UK economy with that of the euro zone and problems with UK public opinion. But a strong political impetus now could do much for both, as was shown in Italy and Spain. If Mr Blair will lead, our survey suggests that business will be ready to fall in behind him.

Under-hedged

Throughout the Asian crisis the western policy establishment has played down the role of the hedge funds. Their part in destabilising the currencies of emerging market economies has counted for less, it is suggested, than that of local borrowers with excessive foreign currency exposure.

But as the crisis has escalated, it has become clear that hedge funds are an increasingly important engine of contagion in global markets. Their speculative attacks on currencies appear also to have been concerted. The Hong Kong authorities justify their recent intervention in currency and stock markets by pointing to collusion between a group of hedge funds bent on smashing Hong Kong's peg to the US dollar.

And now the problems of the absurdly mis-named Long-Term Capital Management have demonstrated that a single hedge fund can pose a systemic threat to the financial system of the world's biggest economy. That is the only explanation for the involvement of the New York Federal Reserve in putting together a banking lifeboat.

One response to the LTCM fiasco would be to say that the outcome is entirely healthy, in that the markets will self-correct. Those who lost more than $2bn in an illiquid investment where management revealed little or nothing about its activities have been deservedly burned. As drawbridges are hauled up across Wall Street, smaller hedge funds will fail.

Those banks that were bedazzled by the Nobel laureates on LTCM's board, and looked only to their collateral in assessing credit risk, have likewise learned a lesson. Why not leave it at that?

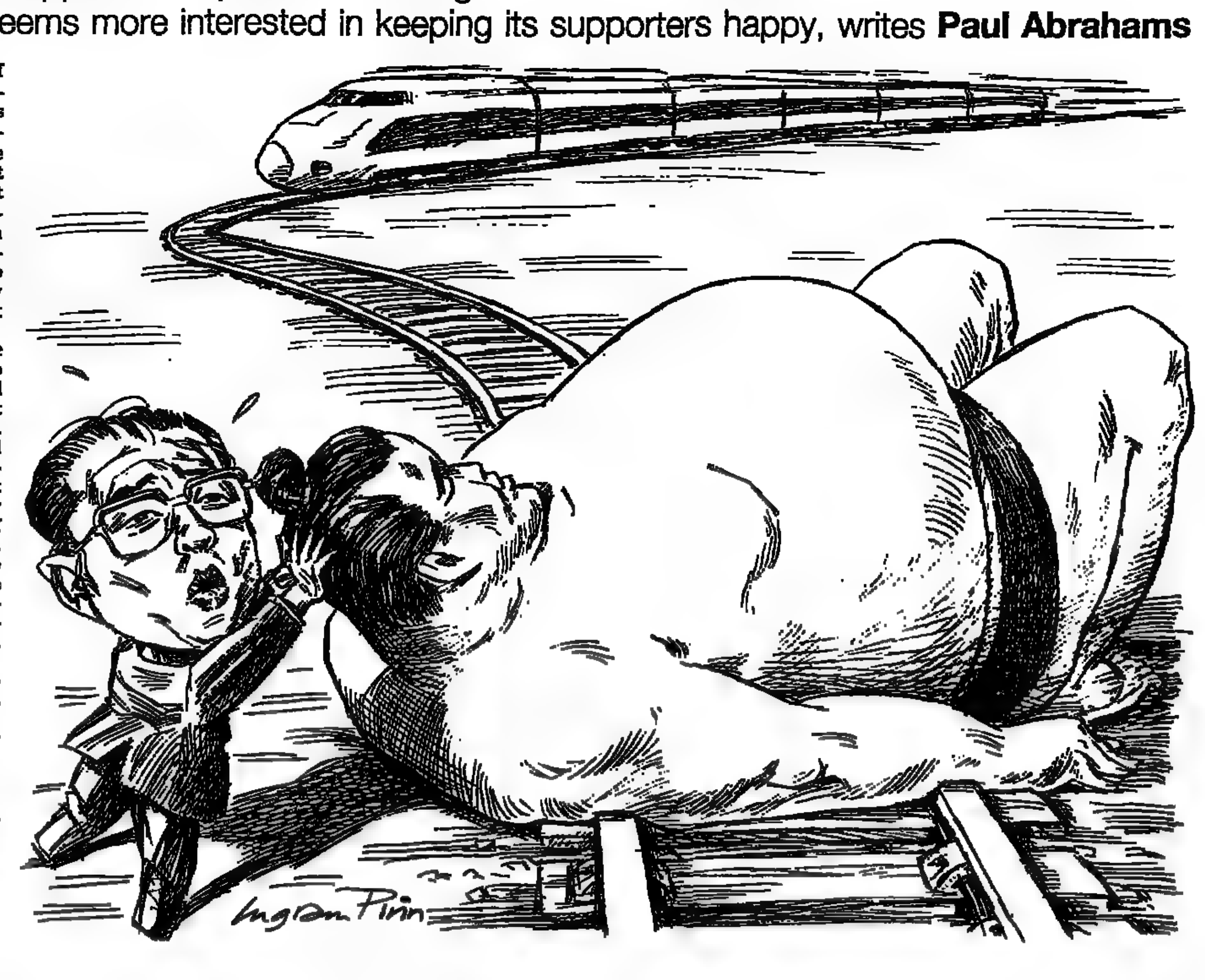
Such complacency would be dangerous. The scale of the hedge funds' activities is huge in relation to the emerging markets in which many of them play. LTCM's $200bn exposure, for example, is vastly greater than the national output of a Hungary, a Malaysia or a Chile. Collusion to sink a currency is wholly unacceptable.

The western policy response to Asia so far has been to emphasise the need for greater transparency in the borrowing countries. This makes them even more vulnerable to predatory hedge funds that disclose nothing thanks to their partnership or off-shore status. After LTCM the world's largest countries must worry, too, about this lack of transparency.

Off-shore havens will not impose tougher disclosure. So any regulatory response will have to be directed at monitoring and, if need be, restraining bank lending to hedge funds. The banks will protest. But if hedge funds pose a systemic threat, this nettle has to be grasped.

Gripped by policy paralysis

Japan's ruling LDP appears incapable of devising the solutions needed to deal with the economic crisis. In fact, it seems more interested in keeping its supporters happy, writes Paul Abrahams



As an example of Japan's policy paralysis, the 1.30am press conference last Saturday could probably not be bettered. After days of late-night discussions and denials that deals were imminent, bleary-eyed, unshaven negotiators from the opposition and the ruling Liberal Democratic party emerged to announce triumphantly that they were close to a broad agreement on banking reform.

But was it an agreement? The terms were almost identical to another landmark deal concocted only a week before, a deal that had collapsed within 24 hours. Worse, the negotiators admitted substantial issues remained unresolved, particularly about whether and when the ministry of finance should be stripped of its powers over banking policy. And finally, details of how to treat Long Term Credit Bank, the institution at the heart of the dispute between opposition and government, apparently were still open for debate.

Political and financial observers remain sceptical. The press conference was the latest landmark in the LDP's continuing failure to find a solution to the liquidity problems at LTCB more than three months after they emerged. Not only is it an unimpressive achievement, but the party's response to this latest financial crisis raises wider questions about its competence. Not least, it has underlined the LDP's critical inability to devise radical policies to address the country's biggest problems, notably the financial system and the country's worst recession since Japan's post-war reconstruction.

The LDP appears paralysed, too closely enmeshed in a web of financial and political interest groups to take action that would benefit the country but might hurt its supporters. Worse, it continues to devise policies that reward its backers rather than strengthen the overall economy.

The LDP is faced with some difficult choices, but appears to be suffering from a failure of nerve – a huge flaw for a party running the world's second-largest economy. "There are political reasons for the LDP's inertia," says John Neuffer, political analyst at Mitsui Marine Research Institute. "But really, they are scared to hell, unable to make the call that allows LTCB to fail. They want to leave it until public officials say there is nothing else that can be done. It rescues them from that duty."

The policy inertia is particularly painful given the need for rapid, radical government action. The country is in an unprecedented downturn. Gross domestic product has now seen a third quarter of negative growth in a row and there is no sign of a recovery. Over the weekend, Taichi Sakaiya, head of the Economic Planning Agency, admitted GDP could contract for an unprecedented fourth quarter. Many western and some Japanese brokers predict the country will achieve no further economic growth before 2000.

Personal spending has collapsed as companies cut production, overtime and staff. Unemployment is at record levels. Monthly corporate bankruptcies are at an all-time high. And even globally competitive companies, such as Sharp and NEC, the electronics groups, are announcing stiff profits warnings.

The government admits that the financial system's bad debts may be Y87,000bn (£4.8bn). But Standard & Poor's, the US ratings agency, believes the figure could be nearly double that – some Y151,000bn – equivalent to 30 per cent of Japan's shrinking GDP.

The crisis demands radical action, but the LDP has proved bereft of ideas. This policy inertia used not to matter; the bureaucrats were in control. But they have lost the initiative, weakened by successive scandals. It is now left to the politicians to devise policy, but they seem singularly ill-equipped to invent successful strategies. Without adequate staff, and without the benefit of ideas from independent think-tanks, they have fallen back on the traditional policy responses – bank bail-outs for the financial crisis and spending packages to cure the recession.

They have also adopted these traditional responses for political reasons. When the party announces big spending packages, it is acting in the interests of its biggest electoral supporters – rural communities – and its biggest financial contributors – the construction companies.

But despite the scale of investments – some Y75,000bn of packages have been announced since 1992 – they have failed to halt the economy's relentless slide into recession. Partly this is because the packages' economic benefit is often transitory. But increasingly, their failure is because heavily indebted local governments, hit by falling tax revenues, are unwilling to spend the money in the first place. Indeed, many, such as Kanagawa prefecture, are cutting expenditure.

The effects of the latest Y10,000bn economic package were supposed to be felt by the late summer, but construction activity continues to fall and the economy remains in the doldrums. Politically inspired, the LDP's spending packages are proving economically ineffective.

As for the LDP's banking policy, that too is motivated by electoral concerns and is proving equally unproductive. LTCB is the most immediate problem. About 28 per cent of its Y46,000bn loans are officially designated as a problem, but the true figure is probably much higher. As a result, counterparties are refusing to lend to it and it is suffering an acute liquidity crisis.

"LTCB should be folded," says Peter Tasker, strategist at Dresdner Kleinwort Benson in Tokyo. "The non-performing loans should be put into a reclamation bank whose job would be to put its borrowers into bankruptcy, allowing their assets to be recovered. But the LDP doesn't want to do that because many of the borrowers are construction companies, traditionally the party's biggest financial supporters."

The crisis demands radical action, but the LDP has proved bereft of ideas

There is another political motive for saving LTCB. Agricultural co-operatives, important institutions in the LDP electoral heartlands, own large quantities of the bank's debentures. Worse, many of the co-operatives also lent large sums to LTCB's three leasing subsidiaries, which may not be recoverable if the bank fails.

However, the LDP is in a bind. It does not control the upper house of parliament and must depend on opposition support to pass its banking legislation. Most importantly, the opposition has blocked the LDP proposals to inject public money into LTCB. It has also wanted to strip the finance ministry of its powers over banking policy-making, claiming the ministry has proved incompetent.

In this weekend's compromise, the LDP has apparently agreed the LTCB should be nationalised, and its non-performing loans placed in a separate organisation which would dispose of them. It also appears that LTCB's leasing companies are to be sacrificed.

Last night Japan Leasing, which has liabilities exceeding Y2,000bn, applied for court protection from its creditors, in what will become one of Japan's biggest ever bankruptcies. There is little doubt that Japan Landic and Nippon Enterprise Development, LTCB's other leasing companies, will follow.

Their fate was sealed when the LDP agreed to the opposition demands not to provide LTCB with public funds. The bank had wanted to forgive its debts of about Y1,100bn to its leasing companies, and then recover the losses from public funds. Japan Leasing's creditors, including Yasuda Trust, a troubled bank in the Fuyo keiretsu or business grouping, have been scrambling in recent weeks to secure collateral against their loans to Japan Leasing. However, the quality of that collateral is uncertain.

But much remains to be settled. It is unclear at what price shareholders would be compensated; what would happen to bond-holders; whether debenture-holders would be compensated; and whether the rest of LTCB would be sold to Sumitomo Trust as the government originally intended.

Finally, although the finance ministry is to lose policy-making powers over banking, there is no decision on when this might happen. In fact, defining this agreement as "broad" is something of an understatement. The danger is that it could unravel as quickly as its predecessor.

Even though there may be little disputing the LDP's policy paralysis and general ineffectiveness, there is little prospect of the party being driven from power. True, Keizo Obuchi, the prime minister, may soon be sacrificed, but he is increasingly being seen as a "kagemusha" – a powerless dummy general who does not wield power. A new prime minister would still be selected from LDP ranks.

As for lower house elections, these do not have to take place until the autumn of 2000. The chances of the opposition forcing an earlier contest are, for the moment, poor. Many opposition parties, such as the socialists, are riding low in the polls and are not keen to force an election. Even the Democrat party, the country's main opposition party, is split on the issue because its financial resources remain low after its triumph in the July upper house elections. Besides, there is no certainty of victory for the Democrats: the Japanese electorate has been quite content to deny the LDP a majority in the upper house since 1989, but it has only once since the second world war forced them from power in the lower house.

The only way the LDP could lose power before 2000 is if the party splits. But that is unlikely. Many LDP politicians tasted opposition briefly in 1993 and are anxious not to repeat the experience.

It was the LDP that presided over the Bubble Economy and led Japan into its latest recession. It would be an unusual historical occurrence for a party that created a crisis to be able to find the key to ending it. Given that, the policy paralysis is no surprise.

OBSERVER

Family misfortunes

It's bad enough that Georgian President Eduard Shevardnadze has to live with heavy-duty protection from would-be assassins. Lately, he has apparently been complaining that he could do with some protection from his family.

The Mr Honesty of the former Soviet Union has ordered an investigation into the business affairs of his nephew, Nugzar Shevardnadze, the fast-living director of fuel importer Iveria Plus which local media says has failed to pay its debts.

In March, Shevardnadze forced the government to annul the results of a privatisation tender won by his son-in-law, saying it created the appearance of impropriety.

If he wants sympathy, he need only look over the border to Azerbaijan, where President Heydar Aliyev has had to deal with a casino scandal involving his son Ilham, who apparently ran up large gambling debts.

Ilham, vice president of the national oil company, SOCAR, has been lying low lately, and any ambitions Aliyev might have to found a presidential dynasty look a little shaky.

Neighbourly

The new mood of friendship between India and Pakistan will find ready expression when the board of the International Monetary Fund gets round to considering Islamabad's request for a rescue package.

India will support the request. "Of course," says Yashwant Sinha, finance minister. "There is no question about it."

Time was when Delhi's motivation might have been relish at watching its long-standing enemy suffer a rigorous austerity programme. In these more enlightened days, there seems to be recognition that India cannot afford a weakened Pakistani economy on its border.

Besides, with both countries having faced international sanctions after a bout of nuclear weapons testing, they have to stand together on Pakistan's request. "I don't like to mention this," says Sinha, "but if they give in to Pakistan, they have to give in to us too."

Bowled over

After months in the wilderness, Hong Kong's IPO market is finally showing a glimmer of life – though compared with last year's crowning glory, the US$4bn offering for China Telecom, the latest offering looks a tad modest.

Wah Yik Holdings, which operates bowling alleys in China's Fujian province, is attempting to raise a trifling S6.4m, barely enough to cover a merchant banker's fees in the glory days – and almost half of that will be lost to expenses.

From Asian miracle to a game of skittles. The underwriters won't get rich, but it should be easy to devise a shareholders' loyalty bonus: a family day out at the bowling alley – bring your own Tsingtao.

The vision thing

While Asian and Russian turmoil is worrying economists around the globe, the big threat to Romanian productivity seems to be coming from Latin America.

Apparently the country is in the grip of soap opera mania. When the nation's television screens are showing the latest dramas of heartache and passion from faraway Mexico, fields go unhoed and nuts untightened.

There has been plenty of soap on Romanian screens since the anti-communist revolt of 1989. But there's been a real froth-up in recent months after a new broadcasting law decreed less violence and sex on TV. Latin American soaps major on complicated and mostly platonic plots about men trying to win the love of the main female character.

Sometimes, soap fever seems to get out of hand. Televisions had to be removed from Bucharest's ambulance headquarters, because crews were waiting for soap episodes to end before turning out for emergency calls.

The bar in parliament closes when staff want to watch a show. In some towns, shops close for staff to tune in – no business is lost, as the customers are all square-eyed too. And if you're finding it hard to raise a phone operator, check the TV schedules.

Dummy run

Remember that Volvo advertisement slogan *Tested by Dummies, Driven by the Intelligent* under a car being driven out of a high window?

It seems Volvo's dummies are getting an upgrade. In a joint venture with Saab Automobile, Swedish car safety components group Autoliv and Sweden's Chalmers University, there's a new test dummy with "potential for better protection against whiplash injuries".

The Biofidelic Rear Impact Dummy (BioRID) has a segmented spine with 24 vertebrae - the same number as a human – and a new, realistic thorax and abdomen. Sounds like the dummies are catching up on the real thing.

Russia's progress

Kremlin wags say they're busy on President Boris Yeltsin's next state of the nation address. The first draft reads: "For years we have stood on the brink of the abyss. Now we have taken a great step forward."

The Financial Times

100 years ago

Glittering hoax
Mr David Isaacs, a Leeds jeweller, appears, according to a police-court case reported yesterday, to have had a rather sharp lesson in the old maxim "all that glitters is not gold". He alleges that one Benjamin Davis, a money lender, brought him a sack filled with brass chippings, worth about five shillings, and sold it for £600, by representing it as being gold from Klondyke. It is somewhat surprising to find that one can succeed in passing off brass chippings as precious metal to a jeweller, and we shall expect to hear of heavy shipments of the inexpensive substitute to the Yukon Valley in the near future.

50 years ago

World Bank Report
That national authorities now have the main responsibility for restoration of international equilibrium and must aim at balanced Budgets and take other anti-inflationary steps is emphasised by M. Camille Gut, managing director of the International Monetary Fund.

Presenting the report of the Fund's Executive Directors in Washington, M. Gut reported "considerable progress" in strengthening war-damaged economies.

FINANCIAL TIMES

MONDAY SEPTEMBER 28 1998

THE LEX COLUMN

Germany's gamble

Helmut Kohl is gone. For now, that is the main point, rather than the arrival of Gerhard Schröder. This is especially so given the still uncertain shape of the government he will lead, not to mention lack of clarity about what Mr Schröder himself represents. The timing, moreover, is not good. With Europe about to embark on the epochal single currency project, the captain has been thrown off the deck, to be replaced by a man whose euro convictions are much more equivocal. Then there is the small matter of the global economy; the perilous combination of fragile markets and slowing growth cries out for statesmanship. Yet Europe's dominant politician, the one pillar of stability, has just departed.

None of this is to say Mr Schröder may not develop into a credible reformer, capable of making the changes Germany needs. But the short term outlook is for political haggling and instability, not to mention the risk of some distinctly business-unfriendly folk in government – hardly a recipe for investor confidence.

Source: Reuters

Goldman Sachs

The partners of Goldman Sachs, meeting today to decide the fate of the investment bank's flotation initial public offering, are caught between a rock and a hard place. Profits are falling, the shares of their peers have halved in two months and the near-collapse of Long-Term Capital Management has spooked investors about investment banks' exposure to hedge funds. If the partners press ahead, they will have to make do with a much lower valuation. Gone are the dreams of $30bn. Lehman Brothers is now trading at less than book value and even Morgan Stanley is down to 2.3 times book. At this rating, Goldman would be worth around $16bn.

Not only would such a valuation cut the amount of new money Goldman was hoping to raise. It could undermine the way the firm was hoping to divide up the spoils. Under current plans, $6bn-8bn is being set aside to ensure the loyalty of employees and satisfy retired and institutional partners. Since some of these payouts have fixed formulae, Goldman's 189 full partners might end up taking the strain. Rough maths suggests the value of their combined interest could drop 60 per cent from $22bn-$24bn to $8bn-$10bn. This will surely tempt them either to revise the formulae – which might lead to some dissension in the ranks – or pull the offer.

Postponement carries risks, of course. Not least, it will embarrass the firm, send a confusing message to clients and, if the delay is lengthy, could cause top talent to defect. But given the real risk that an offering in present market conditions could fail, it looks the lesser of two evils. Goldman's partners will just have to lie back and think of the long term.

Hedge funds

The air is thick with the sound of stable doors slamming. Having been caught on the hop by the troubles of Long-Term Capital Management, financial regulators the world over are rushing to recover. Fair enough. If LTCM had been allowed to fail, the fall-out would have been very messy. Reasonable steps *should* be taken to avoid repetition.

The danger is that hedge funds' bully-boy reputation will encourage a lynch-mob response. This would clearly be inappropriate. For one, they are not all of a kind. They differ enormously in terms of size, strategy and risk appetite. Indeed, it is more helpful to consider them as part of a spectrum of investors, rather than treating them *sui generis*. Regulation should be based on what funds do – often what many other investors are doing – and not simply on their legal status. And inasmuch as their flexible investment style sometimes allows them act as an early-warning apparatus for financial markets, they perform a useful service.

What regulators should focus on is improved transparency and disclosure. The most alarming feature of the hedge fund industry is how poorly it is understood. One example will suffice: estimates of hedge fund capital vary from $90bn to $370bn – quite some discrepancy. If more was known, there would be less hysteria when this sort of episode unfolds. The blame, of course, lies squarely with the funds themselves. Their secretive habits positively invite a heavy-handed response. If they want to minimise this risk, a modicum of voluntary disclosure would not go amiss.

UK tobacco

As the usual stalwarts of the UK stock market puff and wheeze, the two main UK tobacco companies have romped ahead. It is not hard to see why. Both Imperial Tobacco and Gallaher have limited exposure to emerging markets, unlike British American Tobacco, which does not sell in the UK. They also convert a high proportion of profits into cash and are blessed with a product that their consumers will not give up. Tax hikes are reducing official UK cigarette volumes. But actual consumption is thought to be static because of duty-free or bootlegged cigarettes bought in from continental Europe.

Of course, there are wrinkles ahead. Rumblings from UK anti-tobacco litigation have been muted, but will increase with a preliminary trial in November. And if there is a European Union ban on almost all tobacco advertising, margins – already over 40 per cent – could suffer. Brand loyalty is likely to weaken, and although Gallaher and Imperial would shy away from a price war, others may not be so squeamish.

But these concerns should not weigh on investors now. Imperial and Gallaher may be in a mature market, with underlying earnings growing at an unexciting 3-5 per cent a year. But at least the growth is predictable. Both trade at a 30 per cent plus premium to rivals, such as Seita, BAT or Richemont and are no longer cheap. But now would be the wrong time to take profits.

LONG-TERM CREDIT BANK AFFILIATE SEEKS COURT PROTECTION FROM CREDITORS

Japan Leasing heads for collapse with $15bn debt

By Paul Abrahams in Tokyo

Japan Leasing, a non-bank affiliate of Long-Term Credit Bank, the troubled Tokyo-based financial institution, last night filed for court protection from its creditors in what will be one of Japan's biggest bankruptcies.

The leasing company is estimated to have liabilities of more than Y2,000bn ($14.8bn). Two other affiliates of LTCB are almost certain to share its fate.

The decision will send shock waves through the Japanese financial system. In recent weeks, the leasing company's creditors, including Yasuda Trust, part of the Fuyo group, have been seeking collateral to guarantee their loans, even though the quality of that collateral is questionable.

This month Japan Leasing asked 37 financial institutions, including six commercial banks, five trust banks, 11 life insurance companies and four non-life groups, to forgo payments on Y160.5bn of loans. It also asked a number of agricultural co-operatives to accept lower interest payments.

The move to seek court protection was inevitable after opposition parties and the ruling Liberal Democratic Party concluded a broad outline agreement on financial reform this weekend. This included the LDP undertaking not to provide LTCB with the public funds it needed to forgive Y520bn of loans to Japan Leasing and two other LTCB affiliates, Japan Landic and Nippon Enterprise Development Corporation.

Hiroaki Okamoto, president of Japan Leasing, has announced his intention to resign.

The leasing companies have proved a huge impediment to LTCB's merger with Sumitomo Trust, the government's preferred method of dealing with LTCB's financial crisis. Under the agreement, LTCB is to be nationalised, its non-performing loans put into a resolution bank, and the rest of the business sold, possibly to Sumitomo Trust.

Katsunobu Onogi, LTCB's president, this month pleaded for public funds for his bank at the lower house of parliament. He warned that if LTCB failed "its domestic and international impacts would be beyond my imagination".

The outline plan failed to include many details about how LTCB would be handled. There was no information about the treatment of shareholders, bondholders and owners of debentures, nor was it clear what would happen to those who extended loans to the leasing companies. Whether to remove banking policy powers from the finance minister, and if so when, was also left undecided.

If the deal is ratified by the LDP and opposition parties, it could pave the way for financial legislation to be passed in the house before the end of the current session on October 7. "I'm glad we can finally see where the financial system is headed. Now I want to see the bills approved as soon as possible," said Keizo Obuchi, prime minister.

Policy paralysis, Page 18

EU finance ministers optimistic despite global economic turmoil

By Wolfgang Münchau and Michael Smith in Vienna

European Union finance ministers played down at the weekend the international economic crisis, insisting the EU was "conspicuous as a pole of stability" at a time of global uncertainty.

Ministers, meeting in Vienna, reiterated their optimism about European growth prospects in spite of financial crises in Asia and Russia.

Austria, holder of the rotating presidency of the EU, said in its final communiqué that the prospect of economic and monetary union had helped stabilise exchange rate movements.

Gordon Brown, the UK chancellor, underlined at the meeting the position of the Group of Seven industrialised nations that the balance of economic risk had now shifted away from inflation towards slower growth.

But there was no general support for a concerted interest rate cut by European countries.

However, ministers took a step towards deciding who should speak on behalf of euro-zone countries at meetings of international institutions such as the G7 and the International Monetary Fund, in spite of strong reservations from Germany and central bankers.

Speaking at the end of the meeting, which included central bank governors, Rudolf Edlinger, Austrian finance minister, said ministers had agreed to finalise arrangements for a euro-zone representative at international meetings by December's Vienna summit of EU leaders.

"According to the view of all ministers, we need a single voice and focus," he said.

"We have to make it visible to the outside world that we are not just a monetary union but an economic and monetary union."

However, the proposals met with a cool response from some central bankers and from the outgoing German government that has long argued that a euro-zone representative – a political counterpart to the European Central Bank – might erode its independence.

Hans Tietmeyer, president of the Bundesbank, the German central bank, said: "One must differentiate between supra-national responsibility for monetary policy and those that remain national responsibility. Please let everyone remain inside his domain of responsibility."

In addition, the countries participating in monetary union are still divided about how the euro-zone should be represented by politicians in international forums, although they agreed that Wim Duisenberg, president of the ECB, would have observer status at the IMF and would participate in G7 meetings.

Pressure over ERM2, Page 3
Philip Stephens, Page 18
Editorial Comment, Page 19

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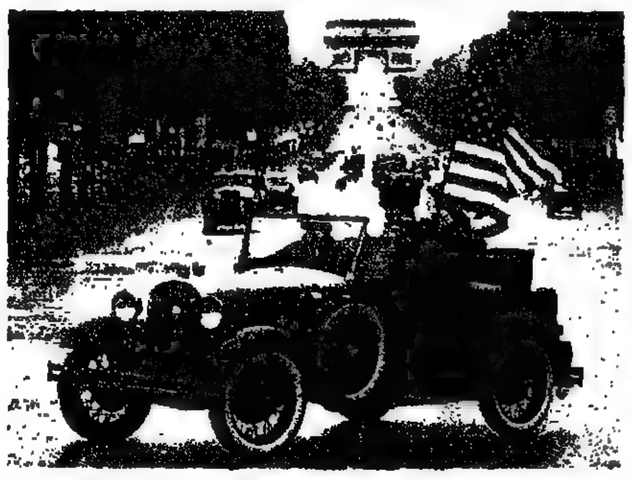
A Ford model A on the Champs Elysées helps mark the Paris motor show's centennial. Some 2,000 cars of all vintages took part. AP

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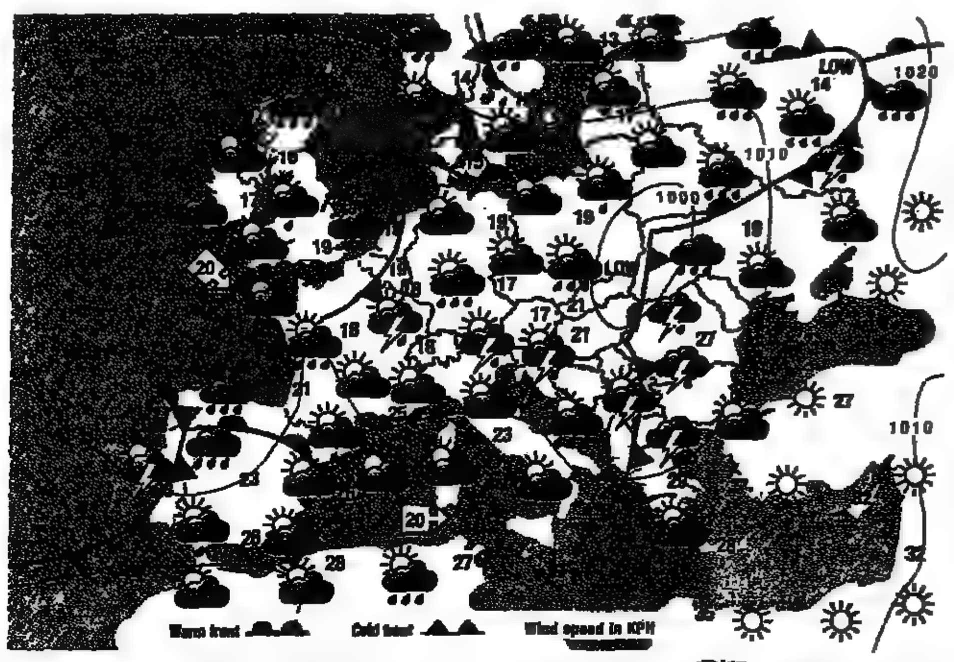
FT WEATHER GUIDE

Europe today

The Low Countries, the Alps and Italy will have heavy rain and thunderstorms. The Balkans, western Russia and the Baltic states will have rain or thundery showers. Northern Norway and Sweden will be cloudy with patchy rain. The rest of Scandinavia will be mainly dry with sunshine, but it will be chilly in the north and windy over southern Finland. The north of the Iberian peninsula will have heavy rain. Southern France and Sardinia will be mostly fine. The eastern Mediterranean will be warm and settled.

Five-day forecast

Many parts will continue unsettled with further rain or thunderstorms. Scandinavia will stay mainly dry, but it will turn even colder in northern and central areas. The eastern Mediterranean will remain dry with warm sunshine in most parts.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	38
Accra	Sun	30
Algiers	Shower	28
Amsterdam	Shower	19
Athens	Fair	29
Atlanta	Thunder	30
B. Aires	Thunder	15
B.ham	Rain	18
Bangkok	Rain	35
Barcelona	Fair	25
Beijing	Sun	24
Belfast	Shower	16
Belgrade	Shower	25
Berlin	Rain	19
Bermuda	Fair	29
Bogota	Shower	19
Bombay	Fair	33
Brussels	Shower	19
Budapest	Shower	21
C.hagen	Fair	15
Cairo	Sun	32
Caracas	Fair	32
Cardiff	Shower	17
Casablanca	Fair	26
Chicago	Sun	24
Cologne	Shower	19
Dakar	Sun	29
Dallas	Fair	32
Delhi	Fair	32
Dubai	Sun	39
Dublin	Shower	17
Dubrovnik	Thunder	23
Edinburgh	Rain	16
Faro	Shower	24
Frankfurt	Shower	18
Geneva	Shower	18
Gibraltar	Shower	26
Glasgow	Rain	16
Hamburg	Drzzl	17
Helsinki	Shower	13
Hong Kong	Sunny	31
Honolulu	Sun	31
Istanbul	Sun	27
Jakarta	Fair	32
Jersey	Rain	18
Johannesburg	Fair	24
Karachi	Fair	34
Kuwait	Sun	41
L. Angeles	Fair	22
Las Palmas	Fair	26
Lima	Cloudy	19
Lisbon	Rain	23
London	Rain	19
Lux.bourg	Rain	18
Lyon	Shower	20
Madeira	Fair	25
Madrid	Thunder	23
Majorca	Shower	28
Malta	Fair	27
Manchester	Rain	17
Manila	Thunder	33
Melbourne	Fair	21
Mexico City	Cloudy	24
Miami	Shower	32
Milan	Shower	24
Montreal	Fair	18
Moscow	Rain	14
Munich	Rain	17
Nairobi	Sun	26
Naples	Shower	25
Nassau	Fair	32
New York	Fair	25
Nice	Shower	25
Nicosia	Sun	32
Oslo	Shower	14
Paris	Shower	16
Perth	Cloudy	19
Prague	Shower	17
Rangoon	Fair	33
Reykjavik	Shower	9
Rio	Fair	29
Rome	Fair	23
S. Frsco	Sun	23
Seoul	Shower	26
Singapore	Fair	32
Stockholm	Fair	15
Strasbourg	Shower	18
Sydney	Sun	26
Tangier	Shower	25
Tel Aviv	Sun	32
Tokyo	Shower	28
Toronto	Fair	18
Vancouver	Sun	19
Venice	Shower	22
Vienna	Shower	19
Warsaw	Shower	19
Washington	Fair	27
Wellington	Fair	14
Winnipeg	Shower	18
Zurich	Shower	19

FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

Share issue puts Ahold on course to acquire Giant Food

Ahold, the Dutch supermarkets group, has raised Fl 3.7bn ($1.96bn) from an oversubscribed issue of shares. The group is on course to reach the Fl 4bn needed to fund the acquisition of Giant Food, the US chain. Page 24

Buy-backs may not provide benefits

In the past 10 days Alcatel, headed by Serge Tchuruk (left) and Philips, two of Europe's biggest companies, revealed plans to buy back chunks of their shares. However, share repurchase analysts say European programmes have yet to bring significant benefits for other shareholders, mainly because of the time difference between the announcement of a company's intention to buy back shares and the completion of the task. International Equities, Page 24

Airlines look set for sharp descent

The signs that the world airline industry is about to dive into a steep recession owing to overcapacity are ominous. The collapse last week of Philippine Airlines, Asia's oldest carrier, follows a run of bad news from the region, but US and European companies are also worried. Page 26

Global turmoil may affect FDI flows

The stable flow of foreign direct investment has been a rare source of comfort for emerging market specialists, amid recent global turmoil. But some analysts warn that FDI flows will slow in the near term. Emerging Markets, Page 26

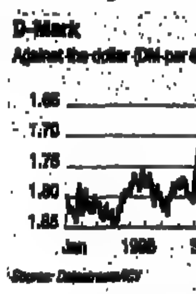
Funds face 'more transparency' calls

The Long-Term Capital Management debacle means the days of almost unlimited leverage for free-wheeling hedge funds are over. LTCM will be unwound in a fog of uncertainty with neither banks nor regulatory bodies aware of the extent of the potential exposures, adding to pressure for tighter regulation. Page 23

GFSA signals end for mining houses

Gold Fields of South Africa, the company co-founded by Cecil Rhodes in 1887 to mine the gold-bearing rock of the Witwatersrand, will soon cease to exist. Its demise is almost the end of the road for the traditional South African mining finance house. Market Movers, Page 25

Currency markets eye Greenspan



Currency markets' attention this week will be fixed on whether the US will cut interest rates. Talk of a cut has reached fever-pitch since Alan Greenspan, chairman of the Federal Reserve, hinted last week at an imminent move. On Friday the dollar lost half a pfennig against the D-Mark to DM1.67 in anticipation. The Federal Open Markets Committee, which sets US base rates, is to meet tomorrow. Currencies, Page 30

FT GUIDE TO THE WEEK

– full listings Page 40

Yeltsin stands accused
The parliamentary commission investigating the possibility of impeachment charges against Boris Yeltsin, the Russian president, is scheduled to meet today.

Spanish-Basque breakthrough
The Spanish prime minister is scheduled to hold a historic meeting with the Basque National party leader tomorrow.

John Paul II to visit Croatia
The Pope visits Croatia on Friday to beatify the late Cardinal Alojzije Stejpinac, who saved hundreds of Jews during the second world war.

Brazilians go to the polls
Elections in Brazil next Sunday will decide the presidency, all 27 state governors, the lower house of Congress and one-third of the Senate.

COMPANIES IN THIS ISSUE

MARKET STATISTICS

Goldman set to postpone IPO

Executive committee expected to ratify decision to delay offering as market conditions worsen

By Tracy Corrigan in New York

Goldman Sachs may call a meeting of its six-strong executive committee as early as today to ratify a likely decision to postpone the investment banking partnership's initial public offering.

Goldman's 189 partners are set to discuss the postponement today at a regular monthly meeting. Difficult market conditions and the worsening outlook for investment banking earnings have persuaded many that the IPO should be delayed.

The prospectus for the offering of 10-15 per cent of the investment bank was due to be filed in the first week of October. This was to be followed by a two-week roadshow of presentations to investors around the world. The global offering was to be launched in late October or November.

However, the firm's management is unlikely to proceed with the final filing to the Securities and Exchange Commission unless it is sure it can press ahead with the offering. This would contain previously private information about the firm's earnings and executive compensation, as well as a breakdown of the distribution of equity following the IPO.

Last week Goldman reported a decline in third-quarter earnings from $1.04bn in the second quarter to $754m. Standard & Poor's, the US rating agency, said on Friday that it had changed the outlook on Goldman's rating from stable to negative in view of the possible impact of continued low volumes and market illiquidity. Goldman has not disclosed its losses on Russia and other public markets, nor its exposure to Long-Term Capital Management, the hedge fund it helped rescue last week, although people at the firm say they are not substantial.

The slide in financial stocks in the past two months has halved the share prices of many US investment banks, hammering the likely valuation of Goldman stock. While estimates once reached $30bn, analysts now put the value at about $16bn.

Postponing the offering would be unsettling for Goldman. For example, it is unclear what would happen to the compensation structure. It seems unlikely to create new partners just ahead of a float, but it may have lost the carrot of partnership while not yet able to reward employees with stock and stock options. Some recent senior hirings, including Michael Carr and Ken Wilson in mergers and acquisitions, are believed to have been lured with specific financial rewards from the IPO.

Since Goldman's senior executives have stated that there are strong strategic rather than financial reasons for changing into a public company, the management is likely to try to revive the IPO as soon as possible.

Lex, Page 20

Telecom Italia announces $22.5bn expansion plan

By James Blitz in Rome

Telecom Italia, the troubled telecommunications group, has unveiled a long-awaited three-year plan to increase turnover by expanding its international operations.

The plan, published at the weekend after a board meeting on Friday, involves L40,000bn ($22.5bn) of financial and industrial investments, which aim to increase group turnover by an average of 7 per cent a year between 1999 and 2001.

International operations account for about 15 per cent of Telecom Italia's business. The group, which faces increased competition at home as the domestic phone market is liberalised, aims to double this by the end of 2001.

Increased cash flow would fully cover the investment programme, the group said, and still leave room for a stock option plan for management and a share buy-back.

It indicated that there was still significant room for expansion of its mobile phone business and said it wanted to increase the number of subscribers by 50 per cent by 2002.

There will also be a push into data services, the internet, television and other information services, with a pledge that these would account for L10,000bn of total group turnover by 2001.

As a first step in pursuing its international strategy, senior officials at the company said they were "very close" to finalising a deal with Cable and Wireless of the UK to set up a global network operating company that would be the largest in the world after AT&T of the US.

It is understood that Telecom Italia last week signed a memorandum of understanding with Bouygues, the French conglomerate, for the purchase of 40 per cent of its stake in its 9 Telecom subsidiary. This would give the Italian side full control of the company with an 89 per cent stake.

The board also challenged RAI, the state broadcasting network, to stop dragging its feet over negotiations with Rupert Murdoch to create a joint holding company that could broadcast Italian football on a digital pay-television platform. RAI is a junior partner in Stream, Telecom Italia's multimedia subsidiary which runs the digital platform. It has been stalling amid political fears about letting Mr Murdoch assume a significant role in Italian TV.

But Telecom Italia, which owns 70 per cent of Stream, warned that an agreement must be finalised by October 5, the deadline for bids for the TV rights to the Italian football league.

If that does not happen, Telecom Italia "will deem itself at liberty to pursue other solutions on its own".

Telecom Italia faces increasing competition at home Sarah Murray

KLM forecasts 20 per cent lower earnings

By Gordon Cramb in Amsterdam

KLM, the Dutch airline, expects earnings to fall by up to 20 per cent this year because of the widening effects of the economic downturn in Asia and a Fl 50m ($25m) blow from a pilots' strike at Northwest Airlines, its US partner.

The outlook is much bleaker than projected early last month when KLM said earnings per share for the year to next March should be "materially higher" than the Fl 8.10 achieved in 1997-98.

Although it warned at the time of economic and labour dangers, KLM said on Friday that both these "non-recurring and external events" would now have an impact greater than it had anticipated.

It lowered its earnings forecast to Fl 6.5-Fl 7 a share.

The two-week Northwest stoppage, which ended two weeks ago, would cut second-quarter profits by 55 cents a share, KLM said.

Although KLM pilots – under threat of legal action by the airline – did not join the strike, shared transatlantic flights were disrupted and KLM could not sell connections on Northwest's domestic routes.

The worsening global economy meant that growth in business volumes had slowed to less than 1 per cent for the financial year to date, after holding above that level in the first three months.

The airline added that yields, which were up 3 per cent in April to June, were now running at levels below those of last year.

KLM shares closed down Fl 2.30 at Fl 55.20 on Friday, ahead of the news, off 11.8 per cent on the week and almost 44 per cent below their mid-July peak.

Since then the company has also acknowledged that operational difficulties at Amsterdam's Schiphol airport, which is burdened by noise constraints, could cost it up to Fl 100m this year.

The airline said it would tackle the latest setbacks by a further assault on costs that would enable it to meet its targets for first-half operating income. But the second six months were looking less favourable.

Braced for downturn, Page 26

Stockholm market for bonds goes electronic

By Greg McIvor in Stockholm

Stockholm is preparing to become one of the world's first bond markets to switch to fully electronic trading of domestic government debt and eurobonds.

Executives at Europe's third largest cash bond market by turnover believe the shift heralds a revolution in fixed income trading, where transactions are typically conducted by telephone between networks of banks and brokers.

OM Stockholm Exchange, which operates Stockholm's equities and derivatives exchanges, plans to implement the change next year after completing a SKr44m ($13m) takeover of Penningmarknadsinformation (PMI), the alliance of Swedish marketmakers that operates Sweden's bond market. Bengt Ryden, OM Stockholm Exchange chairman, said the switch to fully automated trading would bring price transparency to the market for the first time.

PMI lists indicative bond prices on an automated quotation system but real prices can only be obtained via direct contact with a marketmaker.

Mr Ryden said a fully electronic system would be likely to boost bond liquidity and reduce transaction costs, as well as eliminate errors.

"It completely changes the nature of this type of trading. It cuts costs and the efficiencies are enormous," he said.

The new exchange will also offer access to the Danish bond market. The Stockholm and Copenhagen bourses are currently merging their equity trading systems to create Europe's first cross-border equities trading market. Copenhagen wants to create a common fixed income market with Stockholm once the joint equities platform enters operation in the second quarter of next year.

Mr Ryden said foreign and domestic trading institutions had expressed interest in the switch to electronic trading. He added that the market also aimed to trade bonds issued by non-government issuers such as mortgage companies.

The extension of electronic trading is the latest step in an aggressive expansion by OM Gruppen, the quoted Swedish derivatives exchange operator that formed OM Stockholm Exchange after acquiring the Stockholm stock exchange this year.

EDWARD LUCE
GLOBAL INVESTOR

Liquidity crunch threatens

The bail-out last week of Long-Term Capital, the Greenwich-based hedge fund, could not have happened at a more fitting moment. Coming just a few days before finance ministers and central bank governors arrive in Washington for the annual meeting of the International Monetary Fund and the World Bank, the crisis should concentrate minds wonderfully.

The downfall of Long-Term Capital surprised even some of the hedge fund's own investors. As the much admired "Rolls-Royce" of the leveraged finance sector, the effective bankruptcy of LTCM has underlined the increasingly global reach of the collapse of many emerging market economies over the past year. Although LTCM, like many banks and other hedge funds, was heavily invested in the Russian market, most of its exposure was in the US, Europe and Japan, in markets about as far removed from Indonesian bonds or Brazilian stocks as you can get. Yet its balance sheet was wiped out.

The so-called "flight to quality", in other words – with investors pouring their money into the safest western government bond markets, such as US Treasuries and German government bonds – is no longer a geographic phenomenon. The battered economies of Asia and (increasingly) Latin America, have probably lost most of the portfolio flows they are going to lose. Spreads on emerging market bonds have hit near record levels while Asian and Latin American stock markets are at their lowest levels for years. Investors are therefore conducting fire-sales of their exposures to many non-emerging market instruments, such as US corporate bonds, shares in western banking stocks and over-the-counter derivatives contracts.

The effect, as LTCM's demise amply highlighted, is the extension of the emerging market liquidity crunch into mainstream US and European markets. Hedge funds with losses in one market are liquidating assets in others to meet growing margin calls.

Investment banks (a few of which are little more than glorified hedge funds themselves) are unscrambling many proprietary exposures to other banks, sub-investment grade markets and, of course, to various hedge funds. Consequently swap spreads – the difference between the yield on floating rate money and government bonds – have widened to near record levels. The 10-year swap spread in US dollars is approaching 90 basis points – a reflection of investors' desire to minimise their exposure to the banking sector. The net result is the growing threat of a global liquidity crunch.

Giles Keating, chief economist of Credit Suisse First Boston, the investment bank, says that global liquidity growth has slowed significantly during 1998. Although notoriously difficult to measure, CSFB calculates global liquidity by adding emerging market foreign exchange reserves to the growth rate in base money in the industrialised economies. The first has shrunk, the second has slowed markedly. The phenomenon is still confined to the wholesale markets with western retail spending showing little sign of coming to a halt. If the crisis persists, however, it is only a matter of time before banks start calling in loans to riskier borrowers and refusing to extend fresh credit lines to new ones. The western consumer would not be immune to such a process.

What, then, is to stop the current liquidity squeeze becoming a full-blown credit crunch? The short answer is that all eyes are on the finance ministers and central bank governors of the Group of Seven leading industrialised economies. The futures markets have already priced in about a half-a-point reduction in US and UK interest rates before the end of the year.

Such is the severity of the liquidity squeeze and such is the fear pervading the markets, that any reduction in US interest rates would probably, in itself, not be enough to stop the global "flight to quality". As important is a signal that Congress is prepared to grant the IMF the $14.6bn that the US has pledged in additional reserves. Without this, the G7 could not guarantee the prevention of another Russian-style debt default.

Deloitte & Touche to offer consultancy

By Jim Kelly, Accountancy Correspondent

Deloitte & Touche, the professional service firm, will today announce the formation of a consultancy offering clients independent advice on raising capital. It says that such advice is now difficult to obtain from investment banks.

"The consolidation within the investment banking industry means that there are now very few sources for such advice independent of the provision of finance," said Ian Jamieson, partner in charge of the firm's corporate finance division.

The move marks a further stage in the broadening of the services offered by the Big Five firms and plays on doubts over conflict of interest within the highly consolidated investment banking sector.

The firm has set up Capital Consulting Group (CCG) and headhunted David Karat, a managing director in Barclays Capital specialising in financial institutions, and Michael Williamson, managing director of equity capital markets at CSFB.

"Your job in an investment bank is to sell product," said Mr Karat. "We don't have any products to peddle," said Mr Jamieson.

He said that Deloitte & Touche would make a long term substantial investment in CCG which was an integral part of the UK partnership.

Mr Williamson said that informal soundings had discovered that many clients were dissatisfied with transaction-based relationships with investment banks rather than long-term links with advisers without a direct interest in making a deal.

He said that the banks' advisers were clearly motivated by the significant revenues flowing from services such as proprietary trading and derivatives, and this led to an "underlying conflict" with advice on raising capital.

Mr Karat said that the partnership culture was one ideally suited to providing professional independent advice and gave clients access to a wide range of skills and advice on different kinds of capital instrument.

"That culture has disappeared from the investment banking business. In the banks, you work in a deep and narrow trench. At Deloitte & Touche we can now call on a great range of skills."

Mr Karat also felt that because clients had to go to investment banks for advice they often felt committed to take their products – especially in order to preserve confidentiality.

"Sometimes they miss opportunities by talking to the banks far too late in the day," he said.

Mr Williamson said the launch of CCG had been welcomed by contacts at investment banks. He said the group would be able to provide "comfort" on proposed capital raising deals which would encourage more business.

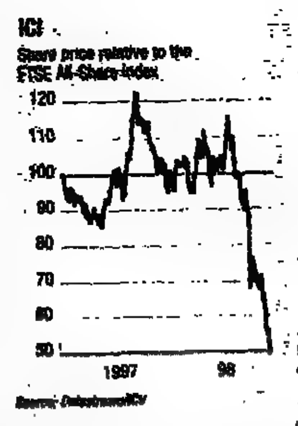
The group would also seek to make such deals more efficient by only involving banks in proposals where they had a real chance of winning the client.

They would also tell banks, where possible, when they had not been considered for business.

"We'll play with a straight bat so they do not get caught flat footed when a deal breaks," said Mr Williamson.

COMMENT

ICI



ICI's shares are in such a deep funk that the company is now capitalised at less than it spent buying Unilever's speciality chemicals. Even a prospective yield of 7 per cent on a 1998 dividend that looks safe is not enough to lure out value buyers. Disposals and ICI's markets are to blame. The first point may seem churlish. The company met its target to raise £3bn from disposals. Unfortunately for its interest bill, it has yet to get its hands on the cash from another £1bn of agreed sales. Even after collecting the proceeds on the agreed disposals, ICI will still be left with net debt of nearly £3.5bn for 1998 and interest cover forecast at a lowly 2-2.5 times. This would be less of a worry if it were close to selling its large industrial chemicals business, with £2bn of sales. But no sale seems imminent and the market for parts of the businesses, such as petrochemicals, is getting worse. ICI could even be carrying a loss for industrial chemicals next year.

Then there is the horrible trading environment for ICI's new core. Tagging on the word "speciality" to chemicals does not create a business immune to the economic cycle. Within ICI's strong portfolio, industrial speciality chemicals, such as catalysts, are nonetheless being hurt by weak markets. Meanwhile, ICI's US paints business is being squeezed by a price war.

ICI shares may have crumbled, but so have earnings forecasts, leaving the company on a forecast price/earnings ratio that at about 14 does not even look cheap compared to US rivals. There seems little reason to be a buyer.

Rolls-Royce

Rolls-Royce's £580m deal to supply British Airways with engines for its new Boeing 777 planes is a welcome fillip for beleaguered UK manufacturers. For the company, of course, victory is all the sweeter for having pipped General Electric to the prize – losing the national carrier's business to GE back in 1991 was a wounding blow. Shareholders, though, must hope that what is good for UK plc is not bad for them. After all, three-cornered bidding contests in this industry – Pratt & Whitney being the third player – have traditionally been won by slashing margins. And the justification that these can be made up for in lucrative after-market business does not look as strong as it once did.

Small stockbrokers are facing up to change

Jean Eaglesham finds that the traditional image is going in a spate of takeovers

Pin-striped and bowler-hatted, the traditional stockbroker is an endangered species – and not just because of changing sartorial fashions.

A recent spate of takeovers and mergers among brokers has highlighted the swift pace of consolidation. Small regional firms of brokers, once seen as the backbone of the sector, are coming under increasing pressure as a result.

"Traditional brokers – the types who say they adhere to old fashioned values – in the end will be forced out [of the sector]," says Brian Tora, head of asset management at Greig Middleton, one of the biggest UK brokers.

If the small firms are on their way out, big overseas banks and financial groups are piling in across the broking spectrum. Just this month, the Canadian bank Toronto-Dominion bought Gall & Eke, owner of the Sharemarket execution-only business, for £8.2m ($13.5m), and Old Mutual, the South African assurance group, became the third biggest broker in the investment management business by paying £41m for Albert E Sharp to add to its £80m purchase of CapelCure Myers.

Meanwhile, Edward D Jones, a big US firm of brokers that specialises in the traditional broking field of offering a combination of dealing and advice, announced that its expansion into the UK – intended to give it 400 branches within five to seven years – was proceeding faster than expected.

But these changes could be the tip of the consolidation iceberg. Many experts think a more radical shake-out is looming.

This might seem surprising. Private client stockbrokers have been enjoying some extremely lucrative times, with 1997 in particular proving a bumper year, according to a report published today by research firm ComPeer and the Association of Private Client Investment Managers and Stockbrokers.

The figures could be taken as an argument for starting up a small broking firm, not selling it off.

Dealing volumes, gross and net revenues and funds under management all increased by over a fifth last year. Operating margins, after allowing for bad and doubtful debts, averaged 16 per cent – not a patch on the 33 per cent average the high street banks achieved, but still a big jump on the 10-11 per cent level of the previous three years.

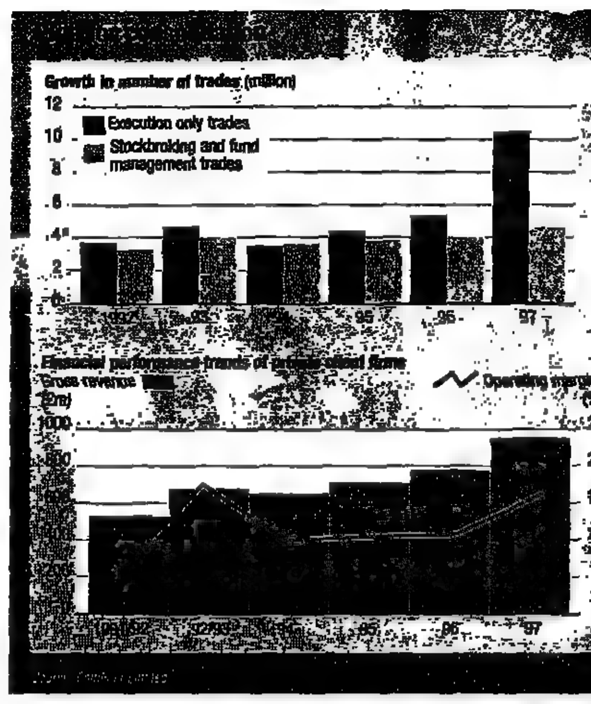
But few believe this happy state of affairs will continue. ComPeer predicts a downturn in margins later this year and next, for a number of reasons.

The first is the state of the markets, and the UK stock market in particular. The recent volatility has not done brokers much harm – relatively small falls in share prices tend to attract value-seeking buyers as well as sellers.

But share dealing volumes will almost certainly prove less resilient if there is a prolonged fall in prices. Despite a slow trend among up-market stockbrokers towards charging fees, commissions still accounted for 79 per cent of revenues last year, according to ComPeer.

"There will be a further shake-out [in the sector] over the next 18 months if there is a bear market – those firms living on trading income will disappear," says Justin Urquhart-Stewart, marketing director of Barclays Stockbrokers.

"Brokers cannot live on commission alone. It is like living on a pogo stick, either feast or famine [depending on which way the stockmarket is going]."



Even if the stockmarket holds up, however, the trend for medium-sized firms to join forces or find a big overseas parent looks set to continue. Rising costs are forcing firms to seek economies of scale.

The estimated 15 per cent jump in the sector's costs last year was absorbed by the 22 per cent increase in revenues.

However, this increase was fuelled in part by the £38bn windfall from building societies and insurers which floated on the stockmarket. An estimated half of the members who got free shares subsequently decided to sell them, generating a surge of business for the execution-only brokers.

The windfalls were one-offs, but the upwards pressure on costs is ongoing, mainly because of the need to invest in information technology.

The main London stock market dealing and settlement systems are now both electronic. While share certificates will not vanish overnight, their days appear numbered and brokers need systems that can cope with this switch.

Charlotte Black, marketing director of Brewin Dolphin, the broker, says: "The firms that are resolutely refusing to dematerialise [deal and settle without paper] are going to find life getting tougher."

Brokers also need to adapt their systems to cope with the euro, and avert the millennium bomb threat. Most important of all, they need to decide where they stand on internet share dealing.

Virtually all the big execution-only firms have plans to launch automated internet services within the next two years, as a cheap way of attracting business and retaining the loyalty of their existing customers.

"The sector's main silver lining is the internet," says ComPeer – proof indeed that times are changing.

BA decides on R-R jet engines

By Michael Skapinker, Aerospace Correspondent

British Airways has selected Rolls-Royce of the UK to provide engines for up to 32 new Boeing 777 aircraft. The announcement is a blow to General Electric of the US which supplied engines for earlier BA Boeing 777s. The list price of the order is about £580m ($950m).

Rolls-Royce's victory over GE was widely expected. Executives from the US company met BA officials during the Farnborough air show earlier this month in a last-ditch attempt to persuade the airline to stick with GE engines. However, GE was understood to be pessimistic about its chances of changing BA's mind.

Robert Ayling, BA chief executive, said: "The race to win this engine order has been one of the most competitive in our history."

BA's decision in the early 1990s to power its first generation of twin-jet 777s with GE engines was a substantial setback to Rolls-Royce and provoked political controversy in the UK. Rolls-Royce initially struggled to convince airlines to buy its engines after its national carrier had rejected them. However, Rolls-Royce fought back, winning engine orders for 777s from carriers including American Airlines, Singapore Airlines and Malaysian Airlines.

BA experienced some problems with the GE-90 engines on its 777s, although it has since said it has been happy with their performance. However, earlier this year it said it had asked all three large engine makers – Rolls-Royce, GE and Pratt & Whitney of the US – to bid to provide the power for a new order of long-range 777s. BA has ordered 16 of the new 777s and has taken options on a further 16.

Rolls-Royce was also successful earlier this year in a bid to provide engines for a BA order of regional jets from Airbus Industrie, the European consortium.

Rolls-Royce has also won the right to be the sole supplier of engines for a new generation of Airbus aircraft, the A340-500 and A340-600.

Airbus had offered GE the opportunity to be the sole supplier of engines for the new versions of the A340, but talks broke down over financial terms. Airbus has since received orders and commitments for over 100 of the new aircraft, although BA has not ordered any. Some GE officials regret dropping out of the race to supply the engines for the new A340 aircraft.

BAe in fight for Greek air defence

By Andrew Edgecliffe-Johnson

British Aerospace is one of four European defence groups vying for an air defence contract from the Greek government worth an estimated £350m ($574m), making it one of the largest closed air defence contracts in recent years.

The bidding has become increasingly bitter ahead of a meeting of the Greek government's procurement department on October 8, which is expected to decide the award.

The four groups which have tendered are British Aerospace, through its Matra BAe missile joint venture; Thomson-CSF of France; Euromissile, the Dasa-Aerospatiale; and Oerlikon, the Swiss group.

BAe, which announced earlier this month that its order book was at record levels, is tendering with the Jernas system. Thomson-CSF has put forward its Crotale: Euromissile is offering the Roland system, and the Oerlikon bid is for its ADATS system.

BAe said this weekend: "We believe that our unique capability to destroy cruise missiles as well as to engage two targets simultaneously will make Jernas the technical favourite."

It is thought that BAe has also emphasised to the Greek government the fact that Jernas is air-portable by both C-130 Hercules aircraft and medium-lift helicopters - a factor which could be highly relevant for Greece in the defence of the scattered islands in the Aegean Sea.

BAe is believed to be offering 100 per cent offset as well as joint development and production of the tactical operations cabin with Hellenic Arms Industries.

Jernas, which has eight missiles per unit, can detect a moving target beyond seven miles and has a reaction time of less than four seconds.

It also has the ability to track and lock on to an enemy missile or aircraft passively, without emitting radar.

CWC launch adds to pressure on Sky

By Cathy Newman

Cable & Wireless Communications, the UK's biggest cable company, will today step up pressure on its rival British Sky Broadcasting, the satellite operator, by announcing a low-cost television and telephony offer.

From next week, CWC will provide 10 channels, including free and pay-TV, a telephone line, and access to pay-per-view movies and sports for £9.99 ($17) a month. For no extra charge, from next year customers will receive the same channels in a digital format, without buying extra equipment.

Graham Wallace, chief executive of CWC, said: "We are offering choice, value, flexibility and future-proofing, because you will get a free digital upgrade."

The announcement will raise the stakes in CWC's battle against BSkyB, as subscribers to the satellite broadcaster's cheapest £6.99-a-month selection of digital channels have to spend £199 on a set-top box to unscramble signals.

A telephone line is not included in BSkyB's basic digital service, which launches on Thursday.

CWC is also aiming to put pressure on British Telecommunications. CWC's £9.99 package costs just over £1 more than BT's monthly telephone line rental.

As part of CWC's arrangements, the cable operator is poised to strike a deal with Flextech, the pay-TV group. It is hoping to offer customers the UKTV channels which were set up as a joint venture between Flextech and the BBC.

For £9.99, CWC's 800,000 customers will be offered UK Horizons the BBC's 24-hour news service, Sky News and a local channel. The package will also include ITV's second digital service once it launches later in the year, and the five free channels.

CWC may give customers the option of buying a £200 digital set-top box instead of renting it, and paying a lower monthly charge. By the second half of next year, the cable operator will also include access to the most popular internet sites over the television as part of the cheapest digital package.

BSkyB said: "This is an attempt to match our digital offering, but customers will want digital immediately, which is only available from BSkyB from Thursday."

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LONG-TERM CAPITAL MANAGEMENT S&P CONCERNED OVER POTENTIAL ILLIQUIDITY

Fall-out hits banks' ratings

By Tracy Corrigan in New York

The fall-out from the $3.5bn rescue last week of Long-Term Capital Management, the US-based hedge fund, and continuing market turmoil has begun to hit investment banks' credit ratings, in a further sign that the securities industry may be entering difficult times.

Standard & Poor's, the US rating agency, said late on Friday that it was reviewing the ratings of Lehman Brothers for possible downgrade, and revised its outlook for Merrill Lynch, Goldman Sachs, Bear Stearns and Donaldson Lufkin & Jenrette from stable to negative.

S&P also lowered Bankers Trust's long-term counterparty credit rating and senior debt rating from A+ to A, citing its heavy focus on non-investment grade clients (although technically a bank, Bankers Trust has in recent years shifted its business to capital markets).

The beneficiaries of a worsening credit outlook for securities firms are likely to be big commercial banks and other financial institutions with diversified earnings and strong balance sheets.

In the last bear market for investment banks a decade ago, many clients shifted business – especially in areas such as derivatives – to strong commercial banks, as investment banks' ratings declined.

S&P reaffirmed the ratings of Barclays Bank, Chase Manhattan, Credit Suisse, UBS, J.P. Morgan, Morgan Stanley Dean Witter, Salomon Smith Barney, Société Générale, Crédit Agricole and Paribas, and said their outlook was stable.

The agency said its actions were due to concern over volatile market conditions, and not a direct result of the LTCM bail-out, but added: "This highly unusual rescue effort is indicative of the severity of the current market environment."

The outlook for Merrill, Goldman, Bear Stearns and DLJ was weakened by "the potential for continued low trading volumes and illiquidity in important trading markets."

Frank Newman: says Bankers Trust 'well capitalised'

Most notably, S&P said it was "concerned about an extended period of weak business volumes and the potential for attendant illiquidity." If negative trends – including volatile markets, heightened counterparty credit risk and adverse market linkages – continued, these firms' ratings could be affected, it added.

The review of Lehman's rating reflects the agency's view that "Lehman's more narrow business base, relative to its large institutional competitors, may disadvantage the firm during a sustained period of low volumes and market volatility."

But Richard Fuld, chairman and chief executive, said it "has never been stronger, after four years of building our businesses, enhancing profitability and growing our capital base."

Frank Newman, Bankers Trust chairman, said the bank was "well capitalised with a strong balance sheet" and had made "substantial progress in ... reducing the firm's risk profile".

However, S&P warned that it faced trading losses and potential credit problems as a result of "relatively high, though decreasing, emerging markets exposure" and might have to "cut back on some of its initiatives".

Hedge funds face call to let in the light

Debacle highlights need for transparency, write **Richard Waters and Tracy Corrigan**

The days of almost unlimited leverage for free-wheeling hedge funds are over. The only question now is whether the most highly leveraged funds can be unwound safely – or whether there is a series of bombs like Long-Term Capital Management waiting to go off.

The winding down will take place in a fog of uncertainty: neither individual banks nor the regulatory authorities know the full extent of the potential exposures. That is likely to add to the pressure for tighter regulation already felt from Washington.

Hedge funds "don't give you information about their overall on- and off-balance sheet exposure", says Maureen Miskovič, director of risk management at Lehman Brothers. As a result, banks such as Lehman have relied heavily on the collateral they hold to protect them against losses: but none of the banks that dealt with LTCM knew the awesome scale of the overall positions it had assembled.

Neither did the Federal Reserve. Exposures to hedge funds are "not a separate category of concentration for supervisory purposes", says Peter Bakstansky, a spokesman for the New York Fed.

This is likely to add to the angst in Washington, as Congress begins to probe how the New York financial markets could have been allowed to rest on a single, unregulated investment fund. At the least, Congress is likely to call for more disclosures of bank exposures to hedge funds – the same knee-jerk reaction that followed earlier lending disasters involving bridge loans and real estate.

Investment banks such as Lehman and Merrill Lynch said on Friday that whatever the overall exposure of LTCM, they believed their own positions were fully covered by collateral, or faced only "minimal" exposures.

However, the banks also acknowledge privately that if the fund had gone into liquidation, the forced unwinding of its vast positions would have caused already troubled financial markets to dry up completely, sending prices plummeting and creating real losses.

Furthermore, in many cases Wall Street firms' proprietary trading desks hold similar market positions in bonds, which would have been harmed by any attempt to unwind LTCM's exposure.

"I believe that what went wrong [with LTCM] was simply they dealt in too much size," says the head of risk management at another institution involved in last week's bail-out. "The normal rules of risk management no longer applied: the sheer size of the fund made it impossible to liquidate."

'The normal rules of risk management no longer applied: the sheer size of the fund made it impossible to liquidate'

Such a graphic example of the dangers of leverage has accelerated the process under way since Russia defaulted on its domestic debt last month, with banks cutting back their exposure to hedge funds.

They have done that by raising collateral requirements on the funds, forcing them to put up more cash or high-quality securities to back their borrowings – a process that reduces the hedge funds' room for manoeuvre. Some firms have been avoiding hedge funds.

"There is a certain inevitability that hedge funds will be less leveraged in future," said Ms Miskovič. The head of risk management at another firm described the crisis as "a wake-up call".

A senior executive at one investment bank said that in future firms should demand more information.

Other hedge funds fear this means they will become the scapegoats of the LTCM debacle. "We're going to suffer because of these guys who go to such extravagant lengths," says Larry McQuade of River Capital.

For highly leveraged funds, the sudden raising of collateral requirements can be lethal, forcing them to sell investments to meet requirements at a time when there are few buyers.

The latitude allowed to hedge funds by others in the financial system is also likely to disappear. LTCM, for instance, was allowed to clear all its trades through Bear Stearns without any formal requirement to put cash in a margin account to protect the bank against the failure of any of the trades. Bear Stearns is thought to have held balances of $2bn or more on behalf of LTCM at various times, so felt no need for a formal safety net.

As the fund began to struggle, however, Bear Stearns is believed to have insisted on holding at least $500m of assets to allow clearing to continue – effectively "freezing" that amount in the system, a move that some other banks claim was responsible for finally bringing the fund to its knees.

Computer models were flawed

By William Lewis in New York

Partners at Long-Term Capital Management, the hedge fund saved from liquidation by a consortium of 14 leading financial firms, now concede there were crucial errors built into the complex computer models on which they based their trades.

According to people who have spoken with the partners, they thought their 20 key trades gave the fund a greater degree of diversification than was actually the case. The mistake was "misunderstanding the risk" of the fund's holdings, according to one person close to the firm. "Whether the trades were in Japan, London or the US, the price of risk went up and all these trades went against [the fund]," he said.

While negotiating with the consortium over the past few days, the partners, many of them leading finance academics, have spent time trying to understand the computer models' flaws.

One thing that gave Long-Term's counterparties some comfort was that it had diversified its investments "broadly round the world", the person close to the firm said. But the type of positions were all "the same".

LTCM specialises in bond arbitrage trading. For example, it would go short in a liquid 30-year Treasury bond in a deal with one financial institution, and long in an illiquid 29½-year Treasury bond with a second financial institution, in the expectation that the premium paid for the liquid bond would disappear over time. It had about 20 key trades at any one time, but the person close to the firm said there were "hundreds" of other trades supporting each key position.

When turbulence hit the bond market at the end of August, the flight to quality by investors meant the securities in which LTCM had taken a short position – in the expectation that the price would fall – went up.

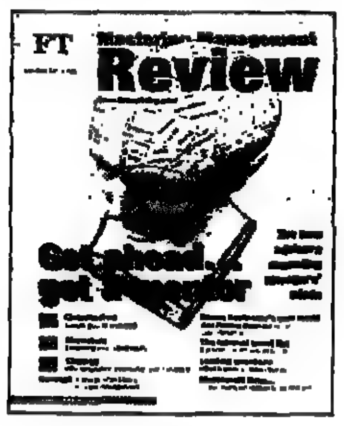
After suffering a 44 per cent fall in the value of the fund in August, the partners attempted to reduce the risk and scale of their positions in the market. By unwinding certain non-core positions, they were able to reduce risk by approximately 30 per cent. But core investments were impossible to unwind in a short space of time.

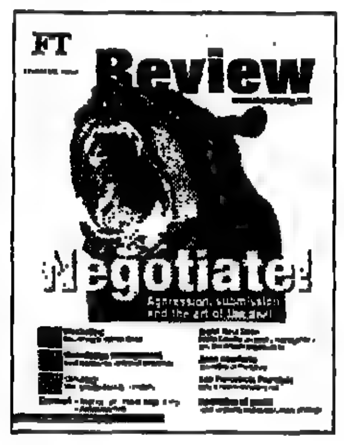
With widespread rumours of LTCM's financial difficulties sweeping the market, the partners were also concerned that other hedge funds and proprietary trading desks of leading investment banks were positioning themselves to profit from a substantial unwinding of the hedge fund's key trades.

According to the person close to the firm, the partners insist the bailing out by leading financial institutions was motivated by a desire to avoid fundamentally harming the financial system. It had nothing to do with personal investments in the fund of leading Wall Street executives.

The mood at the firm is said to be "gloomy". "The partners want to make sure that, number one, they try to recoup as much money as possible for its investors," the person said. The partners hope they "can work really hard ... pay off the debts and maybe run a small investment fund one day", he added.

"This is a very tough time for all people here, the partners, the 180 employees around the world. The staff had almost all of their wealth invested in the fund."





PHARMACEUTICALS CLEARANCE SOUGHT

Vertex claims positive data for HIV drug

By Victoria Griffith in Boston

Vertex Pharmaceuticals, the Massachusetts-based biotechnology company, yesterday announced positive clinical trials data for a new HIV protease inhibitor, Agenerase, and signalled its intention to apply for clearance by the US Food and Drug Administration within the next 30 days.

Protease inhibitors are high-technology drugs that prevent the HIV virus replicating itself. The news may mark a turning point for Vertex, which has a partnership agreement with Glaxo Wellcome, the UK pharmaceuticals group.

The company, and most analysts, had expected Agenerase to come to market much earlier, and delays in clinical trials had led some analysts to question Glaxo's commitment to the drug.

While some analysts see only limited sales potential for Agenerase, others see it as a potential blockbuster. "Sales of this treatment could reach $1bn a year, maybe not right away, but as physicians realise the versatility of this drug," said David Stone, of Cowen & Co. "It could even be combined with other protease inhibitors in a potent cocktail treatment."

Vertex said its Phase III clinical data showed 59 per cent of patients on Agenerase exhibited HIV levels below those at which the virus is likely to develop drug resistance.

The Aids drug market has surged in recent years as many treatments have come to market. This month, for example, Du Pont received FDA clearance for a promising new HIV drug, Sustiva.

Sales of protease inhibitors alone were $2bn worldwide in 1997, and are expected to grow to $4bn over the next few years.

While the use of protease inhibitors has spread dramatically, an estimated 30 per cent of diagnosed Aids patients in the US – and an even higher number overseas – still do not receive such treatment.

Shares in Nice tumble on warning

By Avi Machlis in Jerusalem

Shares of Nice Systems, the Israeli manufacturer of digital voice- and data-logging systems, plunged 35 per cent in Tel Aviv yesterday, after a surprise profits warning sparked a similar slide on Nasdaq last Friday.

Nice said third-quarter revenues would fall by 10-15 per cent, compared with the second quarter, because of slow sales to the financial sector and problems with its low- and medium-price quality assurance systems. These are used for monitoring service quality in rapidly growing call centres. Nice hopes to solve the problems by the end of 1998.

Benny Levin, chairman and chief executive, insisted Nice's long-term growth potential and strategic plans had not changed, and called the downturn a "glitch".

He added: "In 1999 we will go back to our previous growth rate of about 30-35 per cent."

Mr Levin also pledged to press ahead with plans for an overseas acquisition, using $100m raised on Nasdaq last year.

But the warning took investors by surprise, since Nice has consistently met earnings expectations in recent years.

On the Tel Aviv Stock Exchange yesterday the shares fell from Shk113.3 to Shk73.7.

On Nasdaq, Nice American Depositary Receipts fell 37.5 per cent on Friday to $18⅝. They have fallen 62 per cent since peaking in April at $48⅝.

Although some analysts said the market had overreacted to Nice's warning, others downgraded ratings and earnings estimates.

Victor Halpert, computer-telephony analyst at BancBoston Robertson Stephens, said Nice would face "brutal competition" as it attempted to re-establish itself after the setback.

INTERNATIONAL EQUITIES REPURCHASE PLANS HOPED TO HALT FALLING SHARE PRICES ON GLOBAL MARKETS

European giants to buy back shares

By Vincent Boland

Amid the dark clouds currently enveloping global stock markets, could a slew of share repurchase announcements from European companies provide a little silver lining?

In the past 10 days, Alcatel and Philips, two of Europe's biggest companies, unveiled plans to buy back chunks of their existing shares. In both cases, the moves coincided with grim news on the profits front and a sharp fall in the companies' share prices.

Alcatel, the French telecoms equipment group, said it would purchase up to 10 per cent of its own shares over the next 18 months, after the share price plunged more than 35 per cent when the company warned of deteriorating revenues from its emerging markets businesses.

Philips, Europe's largest consumer electronics group, had been expected to unveil a buy-back programme after its disposal of PolyGram, its entertainment subsidiary. The company said it would repurchase up to 8 per cent of its existing shares, starting before the end of the year.

More such announcements are expected in the next few months as European companies seek to take advantage of sharply lower equity markets. But that may be where the good news ends.

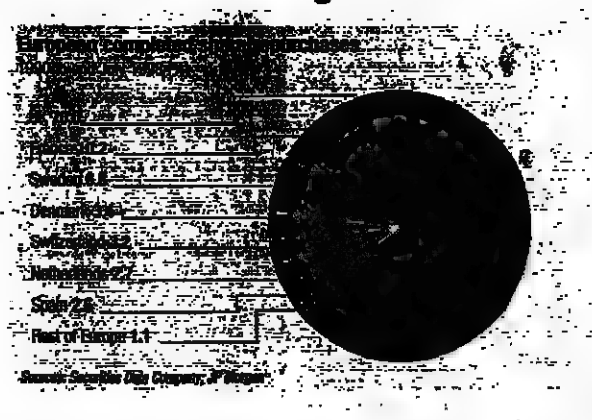
The bad news, according to analysts who follow the progress of share repurchases, is that European programmes have yet to bring substantial benefits for other shareholders, mainly because of the time lag between the announcement of a company's intention to buy back shares and the completion of the task. A substantial majority of existing programmes has yet to be completed.

"When it comes down to it, firms are still reluctant to spend real money buying back their shares," says Paul Gibbs, who follows share repurchase programmes at J.P. Morgan. "If managements really believe their shares are undervalued they should get on and buy them back, but they are very slow to execute."

A company's share price rarely reflects a repurchase programme until the exercise has been completed, he adds.

The value of European repurchase announcements has been rising steadily since 1996, and completions look impressive enough.

In 1996, $2.8bn worth of shares were repurchased, and the figure rose to $12.6bn in 1997 and to



$14.6bn in the first half of 1998, according to J.P. Morgan figures.

Total announcements in the market before the Alcatel and Philips moves stood at nearly $50bn.

However, the bank notes that only 38 per cent of share repurchases announced between 1990 and 1998 have been completed so far, of which nearly three-quarters are by UK companies.

There are two main reasons for this – fiscal and legal barriers that make repurchases either impossible or unattractive, and cultural attitudes towards shareholder value.

In fairness, European countries have made progress recently, often acting under pressure from their own business communities, to ease the restrictions on companies buying their own shares. This year several governments have moved to make buy-backs more fiscally attractive, while other changes are afoot in the UK, which already has created a reasonably benign tax environment.

These developments mean companies that have already received shareholder approval to buy back their shares can now proceed, bankers say.

Attitudes towards shareholder value are also changing, although not as quickly or as widely. In the US, in particular, but also increasingly in the UK, chief executives can be obsessed by their company's share price performance, and spending surplus cash on buying back shares is seen as an efficient use of excess capital.

"The legal and fiscal framework for share repurchases in Europe is not universally favourable, but that is often used as an excuse by companies," says François Langlade-Demoyen at Credit Suisse First Boston. "It can be difficult for managements to realise that the best way to use surplus cash is to give it back to shareholders. There is a lack of value-based management."

Several reports this year have highlighted the favourable outlook for European share repurchases, focusing on companies and sectors in which such activity was most likely and carried the greatest benefit for shareholders. The current slump in share prices adds another incentive, bankers now say.

Analysts say that capital-intensive sectors that have high free cash flow and where returns are under pressure, such as chemicals, oil, steel and paper, are potential candidates to buy back shares. Other observers include financial sector stocks such as banks and insurance companies.

"In all these sectors, if the managements are smart, they will realise that they should not keep cash on their balance sheets but should return it to shareholders," Mr Langlade-Demoyen says.

Ahold issue puts it on takeover course

By Gordon Cramb in Amsterdam

Ahold, the Dutch supermarkets group, has raised Fl 3.7bn ($1.96bn) from an oversubscribed issue of shares and convertible notes, in spite of the recent turmoil on capital markets.

Through the exercise of over-allotment options, the Dutch-based supermarkets group is on course to reach the Fl 4bn needed to fund the acquisition of Giant Food, the US chain.

Ahold issued 45m new shares – the maximum it had indicated – priced at Fl 52.80 each. That compares with Friday's closing price of Fl 53.40, and the Fl 67 level at which it made its previous Fl 2bn offer in March.

The Fl 1.3bn in subordinated convertible notes will bear interest at 3 per cent, the upper end of the intended range.

Standard & Poor's, the credit agency, gave these a rating of single A minus and affirmed its other ratings for the company.

But it warned: "Ahold has exhausted all flexibility at the current rating level, and another major debt-financed acquisition would likely trigger a downgrade."

National and IBM end chip agreement

National Semiconductor, the US chipmaker, and International Business Machines, the computer group, have agreed to end a semiconductor manufacturing pact, a move that will lead National to take a charge against earnings in its second quarter, ending November 29, of about $50m-$55m, Reuters reports from California.

National said IBM would cease selling its Cyrix-designed microprocessor chips before the end of this year. In return, National's Cyrix unit will no longer be obliged to purchase semiconductor wafers from IBM.

The termination of National's pact with IBM, announced on Friday, followed last Thursday's announcement by Cirrus Logic, another chipmaker, that it was in talks with IBM to restructure its 48 per cent stake in Micrus, a joint manufacturing venture.

Cirrus said it was taking the action as part of a series of moves to trim excess manufacturing capacity amid an ongoing downturn in the semiconductor industry worldwide. It also said it planned to lose as many as 500 jobs and take a quarterly charge of as much as $500m.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Cendant (US)	RAC (UK)	Motoring srvcs	$743m	MMC referral
Electra Fleming (UK)	Deutsche Woolworth (Germ)	Retailing	$552m	Venator exit
CVC (UK)	Smurfit Condat (France)	Paper	$314m	Sector consolidates
Lafarge (France)	Unit of Blue Circle (UK)	Cement	$240m	South Africa buy
Cemex (Mexico)	Semen Gresik (Indonesia)	Cement	$115m	Minority offer
More Group (US)	Sirocco (France)	Advertising	$86m	Independent sale
Day Runner (US)	Filofax (UK)	Stationery	$79m	Hostile approach
Winbond Electronics (Taiwan)	ISD (US)	Electronics	$70m	Storage move
Photobition (UK)	Katz Digital (US)	Business srvcs	$47m	Agreed cash deal
Constructor (Norway)	Dexion (UK)	Business srvcs	n/a	Archiving merger

CONTRACTS & TENDERS

LEGAL NOTICE

No 004760 of 1998
In the High Court of Justice
Chancery Division Companies Court
In the Matter of Martin Currie Smaller Companies Investment Trust plc and
In the Matter of The Companies Act 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16 September 1998 confirming the cancellation of the share premium account of the above named company amounting to £54,109,843 was registered by the Registrar of Companies on 18 September 1998.
Dated the 21st day of September 1998.
LINKLATERS & PAINES (DTL), One Silk Street, London EC2Y 8HQ; Solicitors for the above named Company.

LEGAL NOTICE

No 004316 of 1998
In the High Court of Justice
Chancery Division Companies Court
In the Matter of CLM INSURANCE FUND plc and in the Matter of The Companies Act 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 16 September 1998 confirming the reduction of the share premium account of the above named company amounting from £61,643,632 to £31,643,632 was registered by the Registrar of Companies on 18 September 1998.
Dated the 21st day of September 1998.
LINKLATERS & PAINES (DTL), One Silk Street, London EC2Y 8HQ, Solicitors for the above named Company.

CHAIN STORES DEAL WORTH $420m

Promodès in Argentine acquisition

By Ken Warn in Buenos Aires

Promodès, the French retail chain, has shrugged off worries over economic slowdown in Latin America and bought a 49 per cent stake in Supermercados Norte, one of Argentina's leading supermarket groups, for $420m.

The seller was The Exxel Group, an Argentina-based private investment company, which will retain a 51 per cent stake and management control of Norte.

The Promodès alliance would help Norte expand into Brazil, said Juan Navarro, Exxel president. "This alliance is aimed at Mercosur [the customs union that groups Brazil, Argentina, Paraguay and Uruguay]," he said.

Norte operates 58 supermarkets with total sales space of 143,000 square metres. Sales are expected to reach $1.7bn this year. The group also aims to draw on Promodès' expertise to expand its own-label business – a concept little developed in Argentina – and on the French group's "multi-format" strategy.

Promodès operates hypermarkets, supermarkets, and discount, convenience, and cash-and-carry stores. Last year consolidated sales amounted to more than FFr110bn ($19.6bn), mainly from France, Spain, Italy and other European Union countries. It has operated in Argentina since 1997 through its Dia discount stores.

French companies have been prominent in a wave of investment in Argentine retailing, led by Carrefour, which last year notched up a 17.2 per cent market share, according to figures from *J.P. Morgan*. Norte's share was estimated at 12.1 per cent.

Wal-Mart of the US has also been expanding aggressively since it entered the market in 1995, while Ahold, the Dutch supermarket group, paid $368m in January for a 50 per cent stake in a company that controls Argentine supermarket chain Disco and Chilean food retailer Santa Isabel.

● Galeries Lafayette, the French retailer, posted a first-half net profit of FFr189m, compared with a loss of FFr21m a year earlier, AFX News adds from Paris. Operating profit was FFr117m, compared with a loss of FFr77m.

New era opens up at historic GFSA

The SA mining group has had to restructure to survive, writes **Victor Mallet**

Market movers

Number 75 Fox Street, one of the most famous Johannesburg addresses, is up for sale and its offices are almost empty. Gold Fields of South Africa, the company founded by Cecil Rhodes and Charles Rudd in 1887 to mine the gold-bearing rock of the Witwatersrand, will soon cease to exist.

GFSA once straddled the globe and employed 100,000, but from next month only about 27 staff will remain, on temporary contracts, to wind up the group's complicated affairs after more than a century of operations. "Every one of the GFSA employees will have left the books of this company at the end of this month," says Alan Wright, chief executive.

GFSA's demise is almost the end of the road for the traditional South African mining finance house. With the South African economy opening to global competition over the past decade, the centralised bureaucracy providing technical and financial support to a variety of mines and other businesses – often through management contracts – has outlived its usefulness.

"To compete in today's market, you only want to employ consultants when you need them," says Mr Wright. "In the old days, most of the finance for South African operations came from the UK. Communications weren't that great and it was necessary for a large enough body to be in place to finance new mines."

All the old mining finance houses are either disappearing or being reformed to create units focused on particular commodities. Gencor, the former conglomerate, has spun off its base metals interests into London-based Billiton, while its gold mines have been combined with those of GFSA into the new group called Gold Fields Ltd. Gencor is now a precious metals investment holding company and will soon have only five staff.

As Brian Gilbertson put it recently when he announced he was standing down as chairman of Gencor and Gold Fields Ltd to concentrate on Billiton: "Two of South Africa's oldest and most traditional mining finance houses [Gencor and GFSA] have changed themselves out of all recognition from what they were before, and indeed one is likely to disappear quite soon."

Anglovaal, the mining and industrial conglomerate, is also simplifying its structure in a reform programme that will end 65 years of control by the Menell and Hersov families.

Only the giant Anglo American conglomerate – which calls itself "South Africa's premier mining finance house" in its annual report – is likely to retain the label. Anglo executives say they still believe in the benefits of geographical and product diversity, and insist that subsidiaries can benefit from "cross-fertilisation" of ideas within the group as well as the lower cost of capital raised by the parent company.

Even Anglo is changing. It has divided its business into quasi-autonomous companies – Anglogold for gold, Amplats for platinum and so on – but has not unbundled operations in their entirety to shareholders. "They are doing a much more cautious streamlining," says Stephen Briggs, head of mining research at SG Frankel Pollak. "They have not made this full-scale leap."

Mining finance houses survived for so long for two main reasons: first, high commodity prices in the past kept revenues flowing in and disguised the relatively inefficient ways in which such organisations were managed; second, South Africa's isolation under apartheid meant local corporations were not exposed to intense competition.

These days, the prices of most commodities are languishing and South Africa has to compete internationally.

"This unbundling, focusing on core assets and commodity areas is a general trend," says Mr Briggs. "South African mining companies are becoming like mining companies elsewhere in the world with very, very small headquarters staffing."

Like conglomerates in general, mining finance houses have seen their shares trade at a discount to their net asset value, and most of the reforms and unbundling programmes are designed to unlock lost value for shareholders.

GFSA was regarded by investors as particularly badly run in recent years. It had high-quality mines but failed to deliver the profits that stockbrokers expected. Now all that remains is the task of winding up 40 subsidiary companies, selling farmland and mineral rights, and disposing of historical documents.

Yet the name lives on in the new Gold Fields Ltd, which comprises some of GFSA's best assets. In a sense, the company is returning to its roots as the focused gold mining group intended by its founders.

"The name lives on, all of the assets live on," says GFSA's Mr Wright. "It's just so totally restructured and looks so different. The mining house I guess is dead. Long live the new operating company."

High-quality mines failed to deliver the expected profits Glyn Genn

NEWS DIGEST

US MANUFACTURING

AlliedSignal in promise on some AMP jobs

AlliedSignal, the diversified US industrial manufacturer, said yesterday it would guarantee jobs for some AMP workers if its hostile bid for the maker of electrical connection devices was successful. The company, which launched a hostile $10bn bid for AMP last month, vowed to retain for at least one year any Pennsylvania-based AMP employee earning up to $50,000 a year. It was not immediately clear how many of the more than 8,000 AMP workers in Pennsylvania would be affected. The company has a worldwide workforce of about 48,000.

The move comes as AMP, based in Harrisburg, Pennsylvania, is urging state lawmakers to introduce legislation that would strengthen an anti-takeover law already considered one of the strongest in the country.

AMP has repeatedly rejected AlliedSignal's offer, contending that an internal restructuring plan will offer more value to shareholders than the $44.50 a share offer. AlliedSignal said its announcement would not cover employees who had already received redundancy notices from AMP or who had resigned or taken early retirement before the acquisition. "Our commitment covers the group likely to be hardest hit by AMP's repeated rounds of lay-offs in Pennsylvania, which AMP would need to continue if its management is serious about meeting its unrealistic profit estimates," AlliedSignal said.

The two companies are scheduled to square off in court today after suing each other over several issues related to AMP's "poison pill" anti-takeover plan.
Reuters, New York.

MOTOR VEHICLES

Kia creditors in offer

Bank creditors for Kia Motors have offered to increase the amount of debt write-offs to Won4,500bn ($3.24bn) in an effort to sell the insolvent South Korean motor vehicle manufacturer at the third attempt. Two previous auctions were cancelled this month after bidders demanded debt write-offs greater than creditors were willing to accept.

Creditors had earlier offered to write off Won2,900bn in debt principal out of Kia's total debt of at least Won12,000bn, which bidders regarded as inadequate. Ford Motor, of the US, dropped out in the second round because of disappointment over the auction terms, while Korea's three remaining vehicle makers, Hyundai, Daewoo and Samsung, participated. **John Burton, Seoul**

HONG KONG RETAIL

Dickson Concepts warning

Dickson Concepts, the Hong Kong-based luxury retailer, has warned that first-half results will be substantially below market expectations and that it is reviewing its costs and considering a 15 per cent cut in the payroll. Edwin Ing, executive director, blamed the fall on the "extremely difficult trading climate". He added: "Should this trend continue, the company is likely to record an operating loss for the full year."

At the beginning of this month, Dickson Poon, chairman, said the group's Asian operations were experiencing "the worst trading conditions ever", though the company remained confident of the long-term outlook. For the six months to September 1997, the group made net profits of HK$196m (US$25m). **Reuters, Hong Kong**

AIRLINES

Air Canada expects loss

Air Canada expects to incur a net loss for the year after absorbing the C$290m (US$192m) cost of a 13-day pilots' strike earlier this month. The Montreal-based airline, Canada's largest, said on Friday it lost C$330m of revenue because of the strike, which disrupted passenger and air cargo traffic and mail delivery in Canada. The revenue shortfall was offset in part by a net reduction in expenses of C$40m as the strike grounded the airline, resulting in other employees being sent home.

The carrier will record operating and net losses in the third and fourth quarters because of the strike, and expects a net loss for the full year. It did not specify the amount of the expected losses, Air Canada said it would also be examining all cost-cutting measures in its business plan, but no immediate job losses were planned.

Air Canada shares fell 35 cents in Toronto on Friday to close at C$6.50. They have lost more than half their value since January. **Reuters, Montreal**

SHARE ISSUES RENEWED STRENGTH IN US

Prodigy plans IPO to fund internet move

By Louise Kehoe in San Francisco

Prodigy, one of the oldest names in online computer services, has announced plans for a public stock offering to help fund its efforts to refocus on internet access services.

Coming on the heels of the successful stock market debut of eBay, an internet auction service whose stock soared more than 163 per cent in its first day of trading on Thursday, Prodigy's registration with the Securities and Exchange Commission last week was seen as further evidence of renewed strength in the market for initial public offerings.

eBay was the first IPO to come to market in the past month. Several other companies delayed new offerings amid investor concern about market volatility.

However, Prodigy said the timing of its stock offering had yet to be determined and was unlikely to happen before November.

Moreover, some analysts speculated Prodigy might be using its SEC registration to alert private investors that it was seeking cash.

Included among the many "risk factors" described in Prodigy's filing was the warning that the proceeds, together with cash and credit facilities, would meet its operating requirements for just 12 months due to "substantial negative cash-flow".

A leader in bringing online services to consumers, Prodigy was formed in 1984 as a joint venture by International Business Machines, Sears Roebuck and CBS.

Despite investments by its founders estimated at more than $1bn, Prodigy was quickly overtaken by rivals America Online (AOL) and CompuServe and later eclipsed by the rising popularity of the internet.

CBS pulled out in the late 1980s, and in 1996 IBM and Sears sold Prodigy to a group of investors backed by International Wireless, a telecommunications investment group controlled by Mexico's Grupo Carso.

Over the past few years, Prodigy's online information service has declined.

In June it had 638,000 subscribers, down from 1.1m in 1995. AOL, in contrast, has grown rapidly and now has about 15m subscribers.

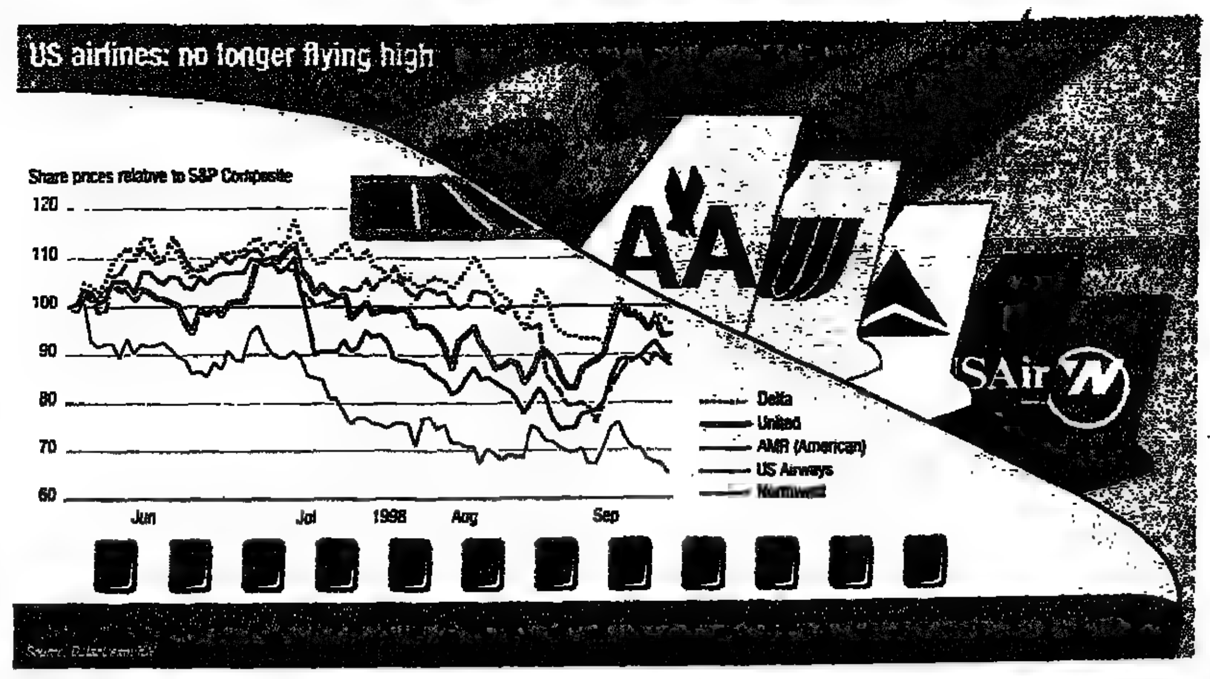
Prodigy is now attempting a comeback as an internet access service. According to the company's prospectus, Prodigy Internet had 386,000 subscribers at the end of June, up from 221,000 six months earlier.

Revenues generated by the new internet business rose from $29.6m in 1997 to $34.4m in the first half of 1998, according to the prospectus.

The size and price of Prodigy's stock offering had yet to be determined, the company said. Lead managers for the offering are Bear Stearns and BancBoston Robertson Stephens.

Airlines get ready for downturn in ticket demand

Signs are beginning to appear of excess capacity, writes **Michael Skapinker**



Is the world airline industry about to dive into a steep recession, as it did after the Gulf War?

The signs are ominous. The collapse last week of Philippine Airlines, Asia's oldest carrier, follows a run of predictably bad news from the region.

Cathay Pacific, the Hong Kong-based airline, last month announced a half-year loss of HK$175m (US$22.6m) – its first in more than 20 years. Japan Airlines this month said it would have to accelerate its cost-cutting programme to stem its decline in profitability.

However, investors in US and European airlines are also worried. Leading US carriers such as American, United, Delta, Northwest and US Airways have underperformed the US market since the summer.

Shares in British Airways, Lufthansa of Germany and KLM of the Netherlands have fared worse than those of other European companies.

Last week, KLM said it expected its earnings this year to be lower than previously forecast.

This was partly due to the recent two-week pilot strike at Northwest, its US alliance partner, but the deteriorating world economic climate had also had a damaging effect.

Chris Avery, aviation analyst at Paribas Capital Markets in London, believes the US and European airline industries have passed their peak and are set for a decline.

Particularly worrying, he says, is that European and US carriers have reacted to the Asian crisis by shifting aircraft to north Atlantic routes instead.

BA recently started flying to Denver, while American said last week it would add new services from the US to Amsterdam and Frankfurt next spring.

Mr Avery says the increase in the number of flights will lead to carriers cutting fares. "You're just beginning to see signs of capacity exceeding demand on the north Atlantic," he says.

Many US and European airline executives argue, however, that the gloom is overdone. KLM has its difficulties, and the City of London was disappointed when BA announced that its load factor, or aircraft occupancy, and its yields – the amount customers pay for each kilometre travelled – fell in the second quarter.

However, Lufthansa more than doubled pre-tax profits to DM928m ($555m) in the first half of the year and Scandinavian Airlines System announced first-half pre-tax profits up 31 per cent to SKr1.45bn ($184m).

In the US, airlines – with the exception of strike-hit Northwest – say they are breaking performance records. American's second-quarter net earnings of $409m were the highest for any quarter in its history.

In August, United flew 8.3m passengers – the highest in any month since it was founded in 1926.

Stephan Egli, Delta's vice-president for the Atlantic and Pacific, concedes: "It is absolutely correct that a lot of carriers have shifted capacity from Asia to the Atlantic." But he says demand across the north Atlantic is strong enough to support that increase in capacity.

However, a market analysis by Merrill Lynch, the US investment bank, suggests airlines are being over-optimistic.

In recent years, the growth in worldwide airline traffic has exceeded the increase in aircraft capacity, leading to a rise in average fares. This year, however, for the first time since 1992, aircraft capacity is rising faster than traffic.

The mismatch between supply and demand is not large. Merrill Lynch forecasts aircraft capacity will grow more quickly than traffic – but the difference will be less than 2 percentage points this year and in 1999.

In 1991, in the wake of the Gulf War, the difference between capacity and traffic growth was 15 percentage points. This suggests that while fares will probably fall over the next few years, they will not drop as dramatically as they did in the early 1990s.

Indeed, one point on which the aviation bulls and bears agree is that airlines are far better prepared for any downturn than they were in the run-up to the Gulf War. Several large airlines have ensured that they can cut back on their orders for new aircraft if passenger demand falls.

American, Continental and Delta all have 20-year supply deals with Boeing of the US which allow them to decide when to take delivery of their aircraft.

Tom Horton, American's European vice-president, adds that several airlines have profit-sharing schemes which will allow them to cut their wage bills if times get tough. "The top airlines are better positioned than ever to weather a downturn," he says.

Polish telecoms offer to proceed

By Christopher Bobinski in Warsaw

Poland is set to go ahead on schedule with its largest public offer to date – the sale of up to one-quarter of its national telecoms operator, Telekomunikacja Polska SA – despite recent falls in world markets, according to Alicja Kornasiewicz, the deputy treasury minister responsible for the deal.

Poland's securities commission on Friday approved TP SA's prospectus, ahead of the offering worth up to $2bn scheduled for the first half of November.

According to Ms Kornasiewicz, 10 per cent of TP SA will be offered abroad and 5 per cent will be placed with local institutions and retail investors. The state is retaining an option on whether to offer a further 10 per cent of the company to investors at the same time.

Price details are to be released in the middle of next month and a final price is to be set on November 7. Schroders is advising the government on the privatisation and acting as global co-ordinator.

TP SA reported a 988m zlotys ($278m) net profit last year when it had 7.5m subscribers and spent 4.3bn zlotys on extending and modernising its network. Almost 1bn new subscribers are to be added this year. Standard & Poor's, the US credit rating agency, has given TP SA a BBB– foreign currency credit rating.

EMERGING MARKETS TURMOIL MAY HIT FOREIGN DIRECT INVESTMENT IN THE SHORT TERM BUT THERE COULD BE BENEFITS TOO

Swings and roundabouts ahead for FDI

By Emiko Terazono

For emerging market specialists, the stable flow of foreign direct investment (FDI) has been a rare source of comfort amid recent market turmoil.

Sharp falls in equity and currency prices have made assets cheaper, while calls for economic liberalisation by the International Monetary Fund have opened up investment opportunities. The long-term nature of FDI has also been cited by analysts and corporate financiers as a reason for the stable inflows.

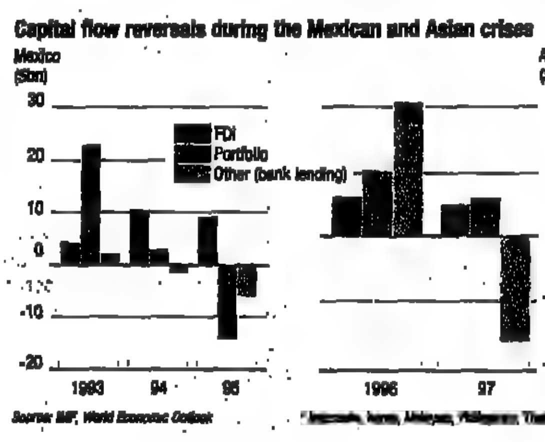
In its recent report on international capital markets, the IMF noted that net portfolio inflows to Latin America fell from $61bn in 1994 to almost zero the following year, while FDI inflows rose from $24bn to $25bn. In Asia, portfolio investment almost halved to $11.8bn from 1996 to 1997, but FDI flows held up, declining by a modest 20 per cent to $9.6bn.

Some economists warn that FDI flows will slow in the near term, however. While the first half of 1998 saw strong interest in emerging-market investments, including buoyant mergers and acquisitions activity, the recent gloom emanating from Russia and Latin America – latest victims of the emerging-market contagion – may have affected FDI flows.

"The numbers have held up well so far, but the outlook is pretty bleak," says one economist.

Since FDI decisions take longer to make, the actual investments tend to lag behind other forms of capital flow, says Stuart Parkinson, economist at Deutsche Bank's emerging market division. FDI decisions are usually made months, sometimes years, before the actual investment.

As financial turmoil hurts the economic growth prospects of most emerging markets, the appetite for future investments is likely to decline sharply. FDI will also be affected by the sharp decline in excess global capital, as emerging-market weakness hits the markets and corporate profits of developed countries.



Source: IMF, World Economic Outlook

Meanwhile, capital controls – already implemented by Malaysia – and increasing trade tension, which could give rise to trade barriers, also threaten FDI in emerging markets, say economists.

Capital curbs, which prevent hedging, expose foreign investors to currency risk, while fear of capital repatriation will affect sentiment. Concern over rising trade tension is also likely to reduce the attractiveness of FDI, which is usually made to exploit low manufacturing costs, with the products exported.

As Asia tries to export itself out of its current demise, flooding the west with cheap products, countries such as the US may consider implementing trade sanctions or barriers.

Some economists counter that while delays and postponements are probable, the long-term outlook is likely to be positive.

"We're talking about a poor 1999, but not a poor decade for Latin America," says Peter West, chief economist at BBV Securities in London.

As long as countries like Brazil can control its expenditure and correct its fiscal balance, the medium-term outlook is pretty healthy, he says.

Neil Dougall, chief economist at Dresdner Kleinwort Benson's Latin America division, says that while market turmoil has taken away some froth, many Latin American governments have put structural changes in place, and the medium to long-term outlook is positive.

He believes the region could benefit from the Asian push to increase exports, as pressure on US companies to reduce costs in order to compete with cheap Asian products could drive investments "down south".

In Asia, the situation may vary from country to country. While the medium-term growth outlook has been downgraded drastically for some, such as Indonesia, others could see quicker recovery. Thailand, for example, is expected to grow by 2 per cent next year, according to Lehman Brothers.

Once the appetite for risk among investors returns, the key question for Asia – where FDI inflows in the past came mainly from investment in new plant and equipment – is whether governments will allow the sale of state-owned companies and banks. There has been a public outcry over the sale of majority stakes in national assets to foreigners.

In Indonesia, the government has been forced to limit the number of shares sold in Semen Gresik, the state-owned cement group.

"The boost for Latin America came when it opened up its banking system after the Mexican crisis," says one economist. "Asia will need to do the same."

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, September 25, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	8086.97	4750.00	2842.44	3508.03
Albania	(Lek)	250.523	147.150	88.0558	108.706
Algeria	(Dinar)	97.6708	57.3309	34.3091	42.3550
Gibraltar	(Gib £)	1	0.5874	0.3515	0.4339
Greece	(Drachma)	493.780	290.025	173.553	214.254
Greenland	(Danish Krone)	10.8211	6.3560	3.8035	4.6955
Pakistan	(Pak. Rupee)	85.2357	50.0650	29.9560	36.9852
Panama	(Balboa)	1.7025	1	0.5984	0.7387

MARKETS WEEK

September 28 - October 4

NEW YORK

By Richard Tomkins

The big event on the US calendar this week is tomorrow's meeting of the Federal Open Market Committee, with recent remarks by Alan Greenspan, Federal Reserve chairman, raising hopes of a cut in interest rates – the first change since March 1997.

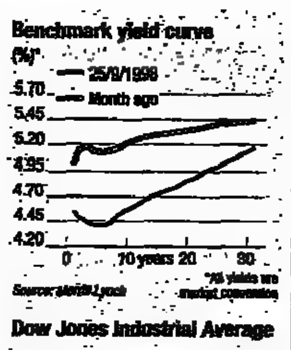
The markets have largely priced in a policy shift, so the risk lies in the possibility that the Fed will leave rates unchanged – which would be bearish for stocks and bonds – or that it will ease them more aggressively than expected.

A 25 basis point cut would fit with the gradualist approach Mr Greenspan has favoured in the past, but on Friday, Treasuries seemed to be discounting a 50-point cut, based on the argument that a lower figure would not have the desired effect.

Stocks also put on a late spurt on Friday, but the mood remains tense after the Federal Reserve's decision to orchestrate an attempted rescue of Long-Term Capital Management, prompting worries about the stability of global financial markets.

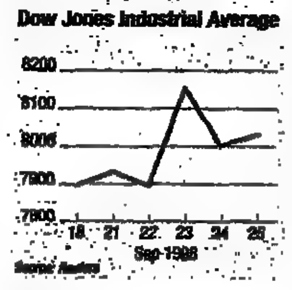
Friday brings the September employment report, with analysts expecting indications that the labour market remains tight.

Benchmark yield curve (%)*



Source: Merrill Lynch

Dow Jones Industrial Average



Source: Reuters

LONDON

By Philip Coggan

As so often in recent weeks, UK investors will look to international events to set the tone for the UK market.

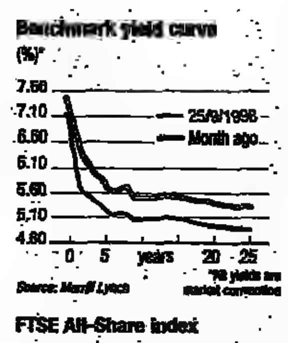
The key event is the US Federal Reserve open market committee meeting tomorrow, which investors hope will lead to an interest rate cut. The after-shocks of the $3.5bn bail-out of Long Term Capital Management, the US hedge fund, will continue to reverberate round the market.

Domestically, investors will looking for further profit warnings, whether caused by the emerging market crisis or the strength of sterling. Bank of Scotland, McKechnie, United Assurance and Wimpey are among the companies reporting this week.

The main economics news will be the purchasing managers' index, which is expected to reveal the continuing problems of the manufacturing sector. The index has been below 50 per cent for several months now, indicating that the sector has been shrinking.

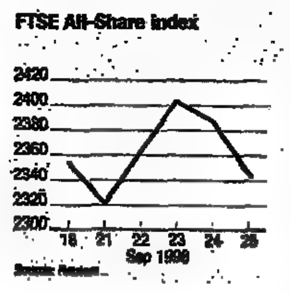
Some still hold out hopes for an imminent UK rate cut, although last week's upward revision to UK gross domestic product figures made that less likely. The Bank of England's monetary policy committee next meets on October 7.

Benchmark yield curve (%)*



Source: Merrill Lynch

FTSE All-Share index



Source: Reuters

FRANKFURT

By Graham Bowley

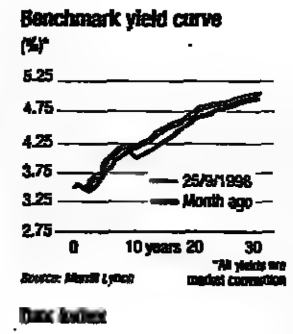
Frankfurt's financial markets will be mulling over the results of yesterday's general elections. In the run-up to the poll, politics had little influence on markets, with sentiment dominated by the financial crises elsewhere.

But politics is likely to be an influence, at least at the beginning of this week. The least preferred outcome for investors will be if the election is so close that the likely shape of the government is left undecided. The ensuing uncertainty could depress investor confidence until a stable coalition is formed. Industrial shares could be unsettled if the Green Party makes a strong showing.

The impact of world market turbulence on German institutions will again be a cause for concern. Some German banks were affected last week after the bail-out of troubled US hedge fund Long Term Capital Management.

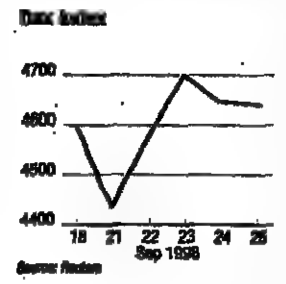
On the corporate front, some companies might be on the defensive again, with lawsuits threatened over their use of forced labour during the second world war. Lawyers acting for alleged victims said they were planning to sue 10 German companies for compensation in US courts.

Benchmark yield curve (%)*



Source: Merrill Lynch

Dax Index



Source: Reuters

TOKYO

By Alexandra Harney

Uncertainty about a plan to rescue Japan's financial sector and the dismal corporate earnings outlook will continue to weigh on share prices this week.

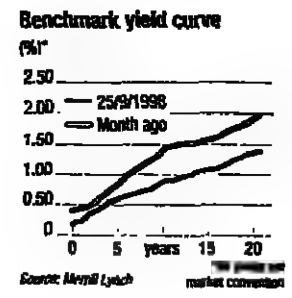
The Nikkei 225 index wobbled around 14,000 last week, losing 3.39 per cent or 481.94 points to finish at 13,723.84 amid new concerns about a bill to tackle banks' bad-loan problems and a string of profits warnings.

Investors will be watching the political wrangle over the banks and the Bank of Japan's tankan survey of business conditions and capital spending for September, due Thursday.

The regular poll of corporate sentiment, which includes data about inventories, financial stability and labour is considered a good indicator of the corporate sector's performance.

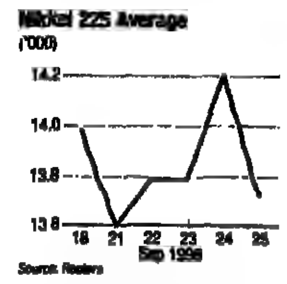
Share prices of large manufacturing and diversified groups have fallen sharply in recent weeks, following a series of grim earnings forecasts by blue-chip companies including Hitachi and Toshiba, the electronics groups, and Nissho Iwai, the trading company. As a result, strategists have cut their earnings forecasts for this year and are predicting the Nikkei will fall further.

Benchmark yield curve (%)*



Source: Merrill Lynch

Nikkei 225 Average ('000)



Source: Reuters

COMPANIES DIARY

EDITED BY MARTIN BRICE

Manchester United kicks off amid takeover fever

The September reporting season begins to draw to a close this week, although it still retains the capacity for a sting in the tail. Perhaps the most interesting results announcement will come from Manchester United, following BSkyB's bid for the football club.

The financial sector will stay at the forefront of investors' minds, as Bank of Scotland and United Assurance report.

One of the last sets of numbers set to come from the engineering sector will be those of Cobham.

The slowing of consumer demand may be an issue in any trading updates from retailers such as Austin Reed and House of Fraser.

TODAY

● Tractebel, the Belgian power group, is today expected to report a 24 per cent rise in interim net profit, thanks to strong electricity and gas sales abroad and possibly a number of large capital gains.

For the first six months of 1998 net profit is expected to be about BFr12.2bn ($350m), which compares with BFr9.85bn a year earlier.

● Will BSkyB score with its bid for Manchester United? BT Alex Brown has outlined to clients three possible outcomes of the offer.

Regulatory approval and a successful agreed offer suggests there is 10 per cent upside in the Manchester United share price, says Jason Holden at the broker.

However, if the regulatory authorities blow the whistle on the deal, he thinks it unlikely that the shares would drift back to their pre-bid levels because the company would still be in play.

Were a rival bidder to walk on to the pitch with a higher offer, the shares would respond positively. He forecasts a underlying pre-tax advance of 9 per cent to £29.7m in the year to July 31.

● Close Brothers, the UK's third-largest merchant bank, may show an increase of some 21 per cent to £67m pre-tax in the year to July, according to a consensus of analysts' forecasts.

TUESDAY

● Brent International, the chemicals company, already signalled in July that the second quarter had been affected by the continuing strength of sterling and a difficult UK manufacturing sector. The imaging business was trading below levels of 1997.

A continuation of these trends would slow growth at the company, and analysts have pencilled in an interim advance of some 2 per cent, to £5.3m.

● When Cobham, the engineering company, reports its interim results, analysts will be keen to hear of the impact of recent troubles in east Asia on the company's avionics business.

Observers close to the company believe that – while demand for civil aerospace products remains robust – there is room for concern in the area of investment by printed circuit board makers.

The company completed eight acquisitions during 1997 and there may be an update on how they are doing. A pre-tax advance of about 13 per cent to £28.1m is forecast.

● While the interim pre-tax profits from Hepworth, the building materials group, are likely to more than double, this will be due to property profits this time and an exceptional loss last time. The underlying increase is expected to be a more reasonable 16 per cent. Cost cuts will have helped margins and there may be more room for manoeuvre in this area, particularly in the company's heating businesses.

There will keen interest in the performance of its building products operations in Germany, because other builders' merchants have recently highlighted a slowing of the market there.

● Recent strong performances by equity markets are expected to have helped United Assurance, although there may be comments on their probable future performance following recent turmoil. Interim pre-tax operating profit is expected to show a rise of 17 per cent to £184.3m, according to BT Alex Brown.

However, David Nisbet at the broker has told clients that excluding the impact of equity markets, profits are forecast to be slightly lower. Depressed new business levels combined with bonus cuts at the end of last year will have affected life profits, which he thinks will be 2 per cent lower.

● The thorny issue of land supply will loom large when George Wimpey, the construction group, reports interim figures.

Analysts say its McLean operation has about two years' supply, which gives the group little protection from high prices in the open market.

The number of plots that the group owns and the cost of replacement land will probably be keenly analysed for the implications they hold for Wimpey's prospects.

Nevertheless, falling costs, rising margins and a higher number of completions are expected to combine to produce an 84 per cent advance to £23m pre-tax.

● Continued growth in the number of sites run by Northern Leisure, the UK's biggest dance hall operator that in May ended talks with a potential buyer, is expected to have helped it to a 64 per cent rise for the full year.

The company said at the interim stage that "a very satisfactory outcome" for the full year was expected, and a consensus of forecasts by First Call shows that analysts expect the pre-tax line to rise from £8.52m to £14m.

WEDNESDAY

● Bank of Scotland is expected to show heathly headline growth of some 18 per cent to £409m, when it reports interim results.

However, the figures will be flattered by £23m of lease write-downs in the comparative figures. The underlying growth is likely to be more like 11 per cent.

Banking shares generally have suffered recently on fears for bad debts prompted by Russian exposure and difficulties suffered by a leading hedge fund in the US.

Some analysts have factored in a bad debt charge of about £120m, which is equivalent to 0.53 per cent of loans. However, this is below the normal level of bad debts, which is 0.77 per cent of loans.

● The tougher retail climate is expected to have taken its toll on House of Fraser, the department store operator. While it said at its June annual meeting that like-for-like sales were 2.5 per cent ahead and margins were better, the company is unlikely to have escaped the consequences of weakening consumer confidence suffered by other retailers.

Tight control of costs and better margins will have helped operating profits but with both debt and rates rising the company is expected to produce an interim pre-tax loss of £1.7m, compared with a loss of £1.8m last time.

THURSDAY

● Any update on current sales patterns when Austin Reed announces interim figures will be keenly analysed for the expected signs of a slowdown in consumer spending. Other retailers and suppliers are reporting flat or slowing markets so the clothes retailer may be no exception.

These figures will include Country Casuals for the first time.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Bistro 98-4, Class A‡	127.5	Sep 2001	(b1)	100.00	-	-	JP Morgan Securities
Bistro 98-4, Class B1	95	Sep 2001	6.96§	99.992	6.963	+225(Sep01)	JP Morgan Securities
Bistro 98-4, Class B2‡	89	Sep 2001	(b2)	100.00	-	-	JP Morgan Securities
HACCMT 98-1, Class A(d)★‡	844	Sep 2001	(d1)	100.00R	-	-	Merrill Lynch
Crusade Euro Tst 2, A(f)‡	314	Nov 2029	(f1)	100.00	-	-	Deutsche Bank
Corp Andina de Fomento	100	Oct 2001	6.375‡	99.914R	6.407	+180(l)	Merrill Lynch
LB Rheinland-Pfalz★	70	Oct 2001	4.54(q)	100.00	4.618	-	IBJ/New Japan Secs
Province of Ontario	750	Oct 2008	5.50‡	99.408R	5.578	+65(5½May08)	Goldman/Salomon SB
Federal Home Loan Banks(n)	500	Sep 2008	5.80‡	104.047	5.270	+55(5½May08)	Salomon Smith Barney
Ford Motor Co	1.5bn	Oct 2028	6.625‡	98.892R	6.712	+145(Nov27)	Merrill Lynch
TF II, 98-1, Class I(u1)‡	1.95bn	Oct 1999	(u1)	100.00	-	-	CSFB
TF II, 98-1, Class II(u2)‡	19.55	Oct 1999	(u2)	100.00	-	-	[illegible]
TF II, 98-2, Class I(u3)‡	1.22bn	Oct 2001	(u3)	100.00	-	-	CSFB
Champion HELT, 1998-1(v)★‡	380	Sep 2028	(v1)	100.00	-	-	Bear Stearns
D-MARKS							
KfW(i)	1bn	Jan 2009	5.00(s)	104.90R	4.595	+41(i)	Deutsche/Merrill Lynch
STERLING							
World Bank	200	Jan 2021	5.40(s)	99.358	-	-	Dresdner KB
World Bank(c)	50	Jul 2007	7.125	110.76	5.549	-	Warburg Dillon Read
Fannie Mae(k)	150	Jun 2002	6.875	102.59	6.027	+58(7%Jun02)	Merrill Lynch Intl
Inter-American Dev Bank	150	Oct 2008	5.75	99.585R	5.806	+70(9%Oct08)	Barclays Capital
KfW International Finance(m)	50	Jan 2021	5.55(s)	99.382	-	-	JP Morgan Securities
Finance for People, A1(r1)‡	44.35	Oct 2037	(r1)	100.00	-	-	ING Barings
Finance for People, A2(r2)‡	119	Oct 2037	(r2)	100.00	-	-	ING Barings
BNG(t)	100	Aug 2007	7.375	110.937R	5.893	+70(7¼Dec07)	HSBC Mkts/JP Morgan
World Bank(w)	75	Jan 2003	6.50	102.383	-	-	Warburg Dillon Read
FRENCH FRANCS							
Rabobank Nederland	3bn	Oct 2008	4.375	100.024R	4.372	+38(8½Oct08)	Crdt Agricole Indosuez
GECC(g)	1bn	Aug 2009	5.625	109.836	4.457	+32(l)	Paribas
BNG(o)	1bn	Jan 2013	5.375	108.629R	4.375	+35(l)	Paribas/SB
SWISS FRANCS							
Statoil	200	Oct 2004	2.75	101.50	-	-	Warburg Dillon Read
GUILDERS							
Koninklijke Ahold(a)§	1.3bn	Sep 2003	3.00	100.00	-	-	ABN Amro/Goldman
PESETAS							
L-Bank	10bn	Oct 2001	3.80	99.967	3.812	-	BCH
RIVE	90bn	Oct 2008	4.60	99.80	-	-	Caja Madrid
EUROS							
Enel	1bn	Oct 2008	4.50	99.354R	4.582	+30(l)	Merrill Lynch/Paribas
World Bank	50	Oct 2008	4.04	100.00	4.040	-	Daiwa Europe
CANADIAN DOLLARS							
BNG	100	Oct 2003	5.25	99.908	5.273	+16(5¼Sep03)	TD Securities
BECC	100	Oct 2001	5.00	99.698	5.114	10(l)	TD Securities
NEW ZEALAND DOLLARS							
Bayerische Landesbank	100	Oct 2001	8.50	100.875	6.172	-	ABC DS Global Markets
DANISH KRONER							
Crédit Local de France	400	Nov 2003	5.00	101.70	[illegible]	-	BIL
GenFinance Luxembourg	400	Nov 2008	[illegible]	102.27	5.14	-	Generale Bank
L-Bank	400	Nov 2001	[illegible]	101.65	4.401	-	ING Barings BBL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. ¶Semi-annual coupon and yield. R: fixed re-offer price. a) Convertible into ords or ADSs at Fl 64.415. Callable after 3 yrs at par. Greenshoe: 15%. b1) 3-mth Libor +20bp. b2) 3-mth Libor +184bp. c) Fungible with £450m. Plus 52 days accrued. d) Household Affinity Credit Card Master Trust. Legal maturity: 17/2/04. d1) 1-mth Libor +12bp. d2) Class B: $48.1m, 1-mth Libor +32bp, par, Sep 01. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Secured on Australian residential mortgages originated by St George Bank. 10% cleanup call. Av life: 3.8 yrs. Callable from 10/8/05 at par. f1) 3-mth Libor +20bp to Aug 05, then +50bp. f2) Class B notes of $11m were privately placed. g) Includes initial FFr500m at 109.711%. Fungible with FFr1.5bn. Plus 66 days accrued. h) Fungible with $1.6bn. Plus 27 days accrued. i) Over interpolated yield. j) Fungible with DM4bn. Plus 180 days accrued. k) Fungible with £1.65bn. Plus 114 days accrued. l) Long 1st coupon. m) Fungible with £400m. Plus accrued. n) Fungible with FFr3.5bn. Plus 128 days accrued. o) 5% to 18/11/03, then 6%. p) Oeffentliche Pfandbrief. q) Quarterly coupons. r) Secured on UK mortgages originated by Paragon Mortgages. Legal maturity: Oct 37. £36m cleanup call. r1) Fast pay. Callable from Oct 00 at par. 3-mth Libor +12bp to Oct 00, then +25bp. r2) Slow pay. Callable from Oct 04 at par. 3-mth Libor +25bp to Oct 04, then +50bp. r3) Class : £17.65m, 3ML +65bp to Oct 04, then +130bp. s) Short 1st coupon. t) Fungible with £300m. Plus 56 days accrued. u) Triangle Funding. Secured on collateralised loan notes. u1) Legal maturity: Oct 99. 3-mth Libor +4bp. u2) Legal maturity: Oct 02. 3-mth Libor +23bp. u3) Legal maturity: Oct 04. 3-mth Libor +20bp. v) Home Equity Loan Trust. Originator: MBIA Insurance Corp. Plus 7 days accrued. Average life: 3.35 yrs. 5% cleanup call. v1) 1-mth Libor +31bp. w) Fungible with £300m. Plus 264 days accrued. Note: Yields are calculated on ISMA basis.

LONDON MARKET DATA

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	10,353	859	628¼	Alld Zurich	659	[illegible]	Q17.7c	3.3	1.6	0.4
-	F.P.	-	58	55½	Enterprise Cap B Pf	55½		-	-	-	-
-	F.P.	-	169½	89	GEC Pd Wts	119½	-5½	-	-	-	-
§130	[illegible]	118.3	129½	119½	Kiln	121	-½	W-	-	-	14.4
-	F.P.	369.5	98	87½	MEPC Non Cum Pf B	88		-	-	-	-
-	F.P.	4.21	6	4	†Nano River (UK)	5		-	-	-	-
-	F.P.	13.9	114½	109½	†Netnor	109½		b3.8	-	4.1	-
§	F.P.	4.71	18	10	Murray Extra Rtn Cap	13½		-	-	-	-
§100	F.P.	29.4	109	98	Do Inc	107½		b7.95	-	8.2	-
§	F.P.	24.0	102¼	98¾	Do Zero Div Pf	109½		-	-	-	-
§32	[illegible]	4.02	32½	28½	†Parallel Pictures	28½		-	-	-	-
§65	F.P.	4.08	65½	62½	†Private & Comm Fin	65½		R0.8	-	1.1	[illegible]
-	F.P.	-	35½	32½	Walker Greenbank B	34		-	-	-	-
§2	[illegible]	2.46	2½	2¼	†Window	2½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
520	Nil	28/9	4pm	3½pm	Caswell Land	3½pm	
10.25	Nil	5/10	3½pm	½pm	Tadpole Tech	½pm	
7	Nil	12/10	0.75pm	0.25pm	Gilbey Network	0.25pm	

pm premium.

FTSE GOLD MINES INDEX

	Sep 25	% chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	1086.62	+2.7	33.67	100.00	1.71	-	1535.45	701.58
■ Regional Indices								
Africa (9)	1186.11	+7.4	9.59	28.46	3.40	45.42	1525.29	785.83
Australasia (7)	1137.48	-1.6	2.96	8.85	3.41	7.98	1609.25	815.93
Americas (11)	1047.77	+0.6	21.10	62.68	0.70	45.78	1574.16	647.69

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STOCK INDICES

	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	5081.00	5167.80	5214.70	5103.30	4980.30	6179.00	4980.30	6179.00	986.90
FTSE 250	4528.90	4580.30	4584.20	4572.20	4553.10	5968.80	4528.90	5968.80	1379.40
FTSE 250 ex IT	4572.80	4623.80	4609.00	4621.80	4607.70	6030.00	4572.80	6030.00	1378.30
FTSE 350	2417.20	2464.10	2481.30	2437.90	2381.50	2967.80	2381.50	[illegible]	664.50
FTSE SmallCap	2011.52	2032.76	[illegible]	2008.01	2037.68	2668.50	2011.52	2668.50	1363.79
FTSE SmallCap ex IT	2000.88	2021.35	2023.32	2030.15	2035.48	2654.10	2000.88	2654.10	1363.79
FTSE All-Share	2343.85	2389.23	2403.97	2364.37	2321.79	2886.17	2321.79	2886.17	61.92
FTSE Fledgling	1134.94	1143.53	1141.25	1142.47	1144.68	1517.11	1134.94	1817.11	31.14
FTSE Eurotop 100	2319.48	2354.73	2390.04	2322.64	2271.95	3086.91	2236.48	3086.91	2044.47
FTSE Eurotop 300	1012.25	1028.46	1039.25	1013.57	986.95	1327.88	971.93	1327.88	874.08
FT 30	3059.10	3112.30	3153.80	3055.40	3035.20	3904.00	3035.20	3904.00	49.40
FT Govt Securities	111.52	110.78	111.51	111.56	111.67	111.67	93.31	141.84	49.18
FT Fixed Interest	151.00	150.50	151.24	151.31	151.51	151.51	115.32	151.51	50.53
FTSE Gold Mines	1086.62	1040.20	978.29	950.41	962.68	1381.57	701.58	2674.61	701.58

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

All Nippon Airways 4.5% Nts 2001 Y450,000
BTM Fin 8⅛% Gtd Bd 2007 $81,250
Do. 8⅝% Bd 2006 $8,625
CGU 8.625% Gtd Cv Bd 2005 £86.25
Daily Mail & Gen Tst 5¾% Bd 2003 £28.75
Delyn 1.5p
Fin Rcvbls For Sectsd Transactions Mezz FRN 2010 £2,302.27
Do Snr FRN 2010 £506.98
Granada 5.14p
Knox D'Arcy Tst 0.4p
NEC 7.15% Bd 1999 Y715,000
NSB Retail Sysytems 0.625p
Stars 1 £86.64
State Bank of New South Wales 14¼% Sb Nts 1999 A$142.50

■ TOMORROW

ACRES No 2 FRN 2007 £92.82
Do Class M1 FRN 2007 £209.44
Do Class M2 FRN 2007 £219.52
ACRES No. 3 Class A 2006 £133.81; Do Class M1 FRN £204.21; Do Class M2 FRN £209.77
BAA 4.875% Cv Bd 2004 £24.375; Do 8½% Bd 2021 £42.50; Do 5¾% Cv Bd 2006 2.875p
Charlwood Alliance 7½% Un 1.875p
Govett Oriental Inv Tst 0.35p
Guaranteed Export Finance 12⅞% Gtd 2002 0.12875p
Hydro-Quebec 9¾% Db 1998 $487.50
Koninklijke Fl0.60
Kvaerner 8% Un 1994/99 £4
Do. 9½% Un 2000/05 £4.75
Lloyds Bank Und 5.57% Nts Y2,785,000
Manchester 3% Rd £0.75
Metropolitan Water Board 2¾% Db 1897 £1.375
NMBZ Z$0.501; Do Ord Z0.501
Nottingham £1.75
Do Water Anns £0.68
Residential Property Sec No 3 Class A2 FRN 2025 £1,302.78
Do Class B FRN 2025 £2,296.06
Scottish National Tst 2.1p
Do 6% Cm Pf 2.1p
Do Stppd 4.072237p
Tendring Hundred Water Services 4½% Rd Db £2.25
Thames Asset Global Secs £867.15

■ WEDNESDAY SEPTEMBER 30

Abbey National First Cap Sb Gtd FRN 2002 $28.69
Do Sb Clnrd FRN 2004 C$32.14
Aberdeen High Inc Tst 7.1% Db 2008 £3.6764
Aberdeen Pf Inc Tst RPI-Lkd Db 2007 £2.813
Alexon Cv Rd Pf 3.125p
Allied Textile 2.85p
API 3.85% Cm Pf 1.925p
Assoc British Eng 4.9% Cm Pf 2.45p; Do 8% Cv Rd Pf 4p
Audax 11% 1st Mtg Db 2021 £5.50
Automotive Products 3½% Cm Pf 1.75p; Do 4.55% 2nd Cm Pf 2.275p; Do 9% Cm Pf 4.5p
BAA 11¾% Bd 2016 £587.50
Bass 10⅜% Db 2016 £5.1875
Bemrose 7½% Cm Pf 2.625p
Berisford 5% Cv Un Ln 2015 £2.50
Blue Circle 5¾% 2nd Db 1984/2009 £2.875
BL Universal 6¾% 1st Mtg Db Bd 2011 3.375p
Do 6¾% 1st Mtg Db Bd 2020 3.375p
Boot (Henry) 5¼% Cm Pf 2.625p
Bristol & West 10⅞% Sb Bd 2000 £1087.50
British Airways Cap 9¾% Cv Cap Bd 2005 4.88836p
British Assets Tst 6⅝% Bd 2008 £3.7725
British Land 9⅜% 1st Mtg Db 2028 £4.6875
Do 10½% Dfd 1st Mtg Db 2019/24 £5.25
Do 11⅜% 1st Mtg Db 2019/24 £5.6875
British Telecom 12¼% Bd 2003 £306.25
Do 12¼% Bd 2006 £306.25
Brixton Estate 11¾% 1st Mtg Db 2018 £5.875
Burtonwood Brewery 7% Cm Pf 2.45p
Cable & Wireless 7% Cv Un Ln 2008 £3.50
Capital & Counties 6¼% 1st Mtg Db 1993/98 £3.125
CGU 8⅜% Cm Irrd Pf 4.1875p
Cheshire Bldg Scty Fltg Rate Perm Int Brg £50.20
Churchbury Estates 9% Un Ln 2000 £4.50
City Site Estates 5¼% Cv Pf 2.625p; Do 10½% 1st Mtg Db 2017 £5.25
Cleveland Place 5% Rd Db £2.50
Do 12⅛% Rd Db 2008 £6.0625
Coats Viyella 4.9% Cm Pf 2.45p
Courtaulds 7¾% Un LN 2000/05 £3.875
Courts 5.9% Cm Pf 2.95p
Craig & Rose 5% Cm Pf 1.75p
Credit Foncier de France 14¾% Gtd Ln 2007 £368.75
DAKS Simpson 5% Cm Pf 1.75p
De La Rue 2.45% Cm pf 1.225p
Doeflex 3p
Drummond 8% Cm Pf 2.8p
Dumyat Inv Tst Cv Mnthly Div 0.5p
Dunedin Inc Grwth Inv Tst 2p
Eclipse Blinds Cv Pf 3.375p
Do Rd Pf 3.375p
Edinburgh Inv Tst 7¾% Db 2022 £3.875
Edinburgh Small Co's Tst 7¾% Db 2023 £3.875
Eldridge Pope 7⅝% Db 2022 £3.8125
Emhart 6% Cm Pf 2.1p
English China Clays 6½% Cv Bd 2003 £65.0
English & Scottish Investors 3¾% £1.875
Feedback 10% Cv Pf 5p
Fidelity European Values Equity IL Un Ln 2001 1.1848p
Finsbury Tst 5¼% Cm Pf 2.625p
Firth Rixson 11.05% Cm Pf 5.525p
Fleming Geared Grwth Inv Tst 1.9p; Do Units 17.1p
Foreign & Colonial Emerging Mkts Inv Tst 6½% Cv Un Ln 2010 £3.25
Foreign & Colonial Inv Tst 5% Cm Pf 1.75p
Forminster 11½% Cm Pf 5.75p
Framlington Inc & Cap Tst 12.6% Db 2008 £6.30
Fuji Bank 1¾% Cv Bd 2002 $43.75
Fujitsu 3% Cv Bd 1999 $75.0
Fulcrum Inv Tst 1.4p
Gartmore Fledgling Index Tst 1p
Gartmore Shared Equity Geared Inc 2.55p
GATX $0.25
Gold Fields of South Africa R1.50
Govett Strategic Inv Tst 11½% Rd 2014 £5.75
Grainger Tst 10½% 1st Mtg Db 2024 £5.25
Do 11¾% 1st Mtg Db 2024 £5.875
Great Portland Estates 9½% 1st Mtg Db 2016 £4.75
Do 10¾% 1st Mtg Db 2021 £5.375
Greenalls 8% Cm Pf 4p
Green Property IR1.8p
Greycoat 9½% Bd 2003 £475.0
Haco 10⅝% Sev Db 2017 £5.3125
Halma 11% Cm Pf 5.5p
Haven Fdg 8⅛% Sec Bd 2037 4.0625p
Health Mngmnt 7.181% Gtd Sec Bd 2003/27 £359.05
Hill & Smith 14% 1st Mtg Db 2000/03 £7.0
Housing Fin 5% Db 2027 £2.50
Do 7% Db 2009 £3.50
Do 7% Db 2009 (Ser 2) £3.50
Indian Rlwy Fin FRN 2003 $350.75
Inveresk 1.93p
Invesco English & Int Tst 5½% Cm Pf 1.925p
Do 8⅞% Cm Pf 4.4375p
Do 10⅝% Db 2014 £5.3125
Inv Tst of Inv Tsts Wrrnt 2.2p
Investors Cap Tst 6⅝% Bd 2008 3.7725p
ITE 0.45p
Johnston 10% Cm Pf 5p
Jones Stroud 10% Cm Pf 5p
Jupiter Int Green Inv Tst 1.7p
Do Units 1.7p
Jupiter Split Tst Ann Pf 6.6p
Do Package Units 39.6p
Kelsey Inds 11¼% Cm pf 5.625p
Kunick Cv Rd Pf 3.5p
Do Cv Rd Pf 4.125p
Kvaerner 10⅞% Bd 2014 £1087.50
Kvaerner Process 4⅞% Sec Ln 2003 £2.4375
Do 5⅝% Sec Ln 2003 £2.8125
Land Sec 10% 1st Mtg Db 2025 £5.0
Do 10% 1st Mtg Db 2027 £5.0
Do 7% Cv Bd 2006 £35.0
Liblife Int 6½% Cv Bd 2004 $162.50
London Cremation 10% Cm pf 3.5p
London Merchant Secs 10% 1st Mtg Db 2018 £5.0
Lookers 2.8p
Do 8% Cv Rd Pf 4p
Majedie Invs 9½% Db 2020 £4.75
McCarthy & Stone 7% Cv Un Ln 1999/2004 £3.50
MEPC 12% 1st Mtg Db 2017 £6.0; Do 8% Un Ln 2000/05 £4.0
Mercury Keystone Inv Tst 5% Cm Pf 1.75p
Morland 5% Cm pf 1.75p
Do 7¾% Db 2027 £3.875
Mucklow (A & J) 13¼% 1st Mtg Db 2000/05 £6.625
Nat Exhibition Centre 7⅝% Gtd Un Ln 2027 £3.78125
Nat West Smaller Co's Inv Tst 2p
NEC 2⅞% Cv Bd 2000 $71.875
Newcastle-upon-Tyne 11¼% Rd 2017 £5.625
Northern Electric Cm Irrd Pf 4.0305p
Northern Telecom $0.075
Oldham 12.4% Rd 2022 £6.20
Parma Food Snr Asset-Bckd FRN 2000 $1517.36
PCO Fin 8% Cv Cap Bd 2005 £200.0
Petroleos Mexicanos 14½% Ln 2006 £7.25
Plantation & Gen Invs 12% Cv Un Ln 2001 £6.0
Pubco 11¼% Sev Db 2006 £5.625
Readicut Int 6% Cm Pf 1.05p
Do 5¾% 2nd Cm Pf 2.0125p
Reckitt & Colman Cap Fin 9½% Cv Cap Bd 2005 4.75p
Rexam 7¾% Cv Pf 3.875p
Rights & Issues Inv Tst 5.25p
RIT Cap Partners 2½% Cv Un Ln 2000 £1.25
Royal Bank of Scotland Ser B Non-Cm Pf $0.70; Do Ser C Non-Cm $ Pf $0.59375
Schroder Pfit Fd 2.1p
Schroder Ventures Int Inv Tst 7% Cv Bd 2006 3.5p
South African Breweries 6.2% Gross Pf R0.062
Southend Property 10½% 1st Mtg Db 2025 £5.25
SR Pan-European Tst 0.4p
Standard Chartered 12⅞% Sb Un Ln 2002/07 £6.4375
Staveley Inds 5¼% Cm Pf 1.8375p
Sterling Inds 5½% Cm 1st Pf 1.925p
S & U 6% Cm Pf 2.1p
Tate & Lyle 6½% Cm pf 2.275p
Do 8% Un Ln 2003/08 £4.0
Do 10¾% Un Ln 2003/08 £5.375
Telekom Malaysia 4% Cv bd 2004 $100.0
Temple Bar Inv Tst 6.25p
Three Valleys Water 4% Irrd Cv Db £2.0
Tor Inv Tst 4¾% Cm pf 1.6625p
Do 6% Cm pf 2.1p
Trafford Park Estates 11¾% 1st Mtg Db 2007/10 £5.875
Transport Dev B 0.819238p
Do 9¼% Un Ln 1995/2000 £4.625
Treasury 15½% Ln 1998 £7.75
Volex 7% Cm Pf 2.45p
Warburg (SG) 7⅝% Cm pf 3.8125p
Wessex Water 14.1p
Westland 12⅜% Db 2008 £6.1875
Westpac Perp Cap FRN $299.92
Whitbread 4½% Rd DFb 1999/2004 £2.25
Wilkinson & Riddell 5% Cm Pf 2.5p
Williams Cv rd Pf 4p
Do 10¾% Cm Pf 5.375p
Wintrust 5¾% Cv pf 2.875p
Do 10½% Cm Pf 5.25p

■ THURSDAY OCTOBER 1

Abbey National Fdg 6.1% Dual Crrncy Nts 1999 Y2541.66
Abbey National Treasury 8⅜% Gtd Bd 2003 L418750.0
AEA Tech 6.5p
Allied Domecq 9¾% Db 2019 £4.875
Amberley 1.37p
AMCO 2.5p
Asda Prop 10⁵⁄₁₆% 1st Mtg Db 2011 £5.15625
Austin Reed 8% Cm Pf 2.8p
Baldwin 7% Cm Pf 2.45p
Barbour Index 7.2p
Baxter Int $0.291
Bensons Crisps 0.5p
BET 5% Perp Db £2.50
Bournemouth & West Hants Water 8½% Cm Irrd Pf 4.25p
Bowater $0.20
Brewin Dolphin 3.5p
Bristol Water 39.85p
Do N/Vtg 39.85p
Bristol Water 8¾% Irrd Pf 4.375p
Do 11.2% Rd Db 2005/09 £5.60
Do 11¾% Rd Db 2004 £5.875
Do 12½% Rd Db 2004 £6.25
Brixton Estate 10⅝% 1st Mtg Db 2012 £5.3125
Broadcastle 1p
BWD 3.5p
Caffyns 6½% Cm 1st Pf 2.275p
Do 10% Cm Pf 5p
Carclo Eng 10½% Cm Pf 5.25p
Carlton Comms Cm Cv pf 2.75p
Caverdale 2.25
Chesterfield Props 5¼% Cv Pf 2.625p
Christie 1.5p
Conversion 3½% Ln £1.75
Country Gardens 0.7p
Courtaulds Clothing 7½% Cm pf 2.625p
Crest Nicholson 1.5p
Do 5½% Cv Pf 2.75p
Crest Packaging 1.375p
Daejan 23p
Danka Business Systems 6¾% Cv Sb Nts 2002 $3375.0
Druck 1.37p
East Surrey 7.8% Cm Pf 3.9p
Eclipse Blinds 1.32p
Essex & Suffolk Water 11.2% Rd Db 2005/09 £5.60
Do 11¾% Rd Db 2002/04 £5.875
Euclidian 13p
European Motor 3.5p
Export-Import Bank of Japan 4⅜% Gtd Bd 2003 Y43750.0
Express Dairies 4.9p
Farepak 4.45p
FI 5.2p
First Choice Cv rd Pf 4.875p
Firth 0.3p
Fleming Contl European Inv Tst 5% Cm Pf 1.75p
Fleming Inc & Grwth Inv Tst 2.25p
Fletcher King 1.85p
General Accident 7⅞% Cm Pf 3.9375p
GEC 8p
GKN 5.75p
Glaxo Wellcome 15p
Great Universal Stores 14p
Greece 4% Rentes 1889 20p
Do 4% Rentes 1889 £ Fdg Bd 1965 50p; Do 4% Ln 1910 19.85p; Do 4% Ln 1910 £ Fdg Bd 1965 50p
GTE $0.47
Hadleigh 5.25p
Hambro Countrywide 1p
Hampson 2p
Do Cv Pf 1991/2003 3.25p
Hardys & Hansons 6% Cm 2nd Pf 2.1p
Henderson Far East Inc Tst 1.7p
Hi-Tec Sports 0.9p
Hull 2½% Rd £1.25
Do 3½% £1.75
Illingworth Morris 6½% Cm Pf 2.275p
Do 6½% 2nd Cm Pf 2.275p
Impala Platinum R2.90
Intelek 0.6p
Investment Co 4.125p
ISA Int 1.81p
Japan Dev Bank 5% Gtd Bd 1999 Y50000.0
Johnson Matthey 5% Cm Pf 1.75p
Johnson Service 3.3p
KBC Advanced Tech 1.3p
Kewill Systems 7p
Law Debenture 11.75p
Lawrence 7.05p
Leeds 13½% Rd 2006 £6.75
Leslie Wise 0.5p
Liverpool 3% Rd £1.50
Do 3½% $0.875
London 3% 2007 £1.50
Lonrho Africa 1p
Marshalls Cv rd Pf 3.25p
Megalomedia 0.25p
Mentmore Abbey 0.71p
Menzies (J) 9% Cm Pf 4.5p
MEPC 10½% Un Ln 2032 £5.25
Mercury Keystone Inv Tst 7¾% Db 2020 £3.875
Do 11⅜% Db 2010/15 £5.6875
Metropolitan Water Lambeth 3% Rd Db £1.50
Do London Bridge Anns £1.25
Do Met Water 3% A 1963/2003 £1.50
Mid-Sussex Water 10% Rd Db 2013/17 £5.0
Do 12% Rd Db 2010 £6.0
Millennium & Copthorne Hotels 3.3p
Mitie 1.4p
Morgan Crucible 3.85% Cm 1st Pf 1.925p
Do 3.5% Cm 2nd Pf 1.75p
Morgan Sindall 2.05p
Murray Smaller Mkts Tst 4.15p
National Grid 7.24p
Northern Foods 3.95p
Oxford Instruments 5.8p
Park Estates 3.25p
Park Food 1.88p
Parkwood 0.6p
Peel 5.8p
P & O 5% Cm Pf £1.75
Port of London 3½% 1949/99 £1.75
Precoat Int 4p
Prowting 8.8% Cm Pf 2002 4.4p
Queens Moat Houses 10¼% 1st Mtg Db 2020 £5.125
Quester VCT 1p
Ransom (Wm) 1.79p
Rea Bros 0.65p
Reading 3½% £1.75
REA Fltg Rate Un Ln 1995/98 4.125p
Regal Hotel 0.48p
Reliance Security 5.65p
Republic New York $0.25
Royal & Sun Alliance 7⅜% Cm pf 3.6875p
St Andrews Tst 1.37p
Sara Lee $0.23
Saville Gordon Estates 2.05p
Scottish Hydro-Electric 13.6p
Scottish Media 6½% Cv Un Ln 2007 £3.25
Scottish Power 13.6p
Sears Roebuck $0.23
SEP Ind 0.5p
Shell 5½% Cm 1st pf 1.925p
Smith (David S) 5.5p
Spain 4% £2.0
Stadium 1.85p
Standard Chartered 7⅜% Non-Cm Irrd Pf 3.6875p
Do 8¼% Non-Cm Irrd Pf 4.125p
Stewart & Wight 6% Cm Pf 0.75p
Stylo 0.1p
Taylow Woodrow 9½% 1st Mtg Db 2014 £4.75
TBI 1.25p
Tinsley (Eliza) 4.2p
Tops Estates 2p
Do 7½% Cv Ln 2020 £3.75
Transport Dev 4.75p
Treasury 2½% £1.25
Ulster TV 2.8p
Ultra Elect 2.7p
United Utilities 6.45% Nts 2008 $32.25
Vardy (Reg) 5.45p
Viridian 15.95p
Volex 14.75p
Whitbread 5½% 3rd Cm Pf 1.925p; Do 5¾% Irrd Un Ln £2.875
Wigan 3% Rd £3.0
Willis Corroon 1.75p
Wintrust 10.3p
Witan Inv 8½% Db 2016 £4.25
Woolcombers 7½% Cm pf 2.625p; Do 6% Cm 2nd Pf 2.1p
Worthington 2.1p

■ FRIDAY OCTOBER 2

Abbey National Fdg 5.8% Dual Crrncy Gtd Nts 2000 Y2416.66
Admiral 1.1p
AIM Grp 3p
Alliance Tst 22p; Do 4% Cm Pf £1.40; Do 4¼% Cm Pf £1.4875; Do 5% Cm Pf £1.75
Alvis 5½% Cv N/Vtg Pf 2.75p
Asda 2.63p
Blacks Leisure 3.75p
BOC 12¼% Un Ln 2012/17 £6.125
Bogod 0.4p; Do A Rest/Vtg 0.8p
Britannia Smaller Co's Tst 1p
Burford 1.15p
Columbus 0.43p
Conister Tst 0.32p
Diagonal 1.4p
Dudley Jenkins 4.5p
EMI 11.75p
Fayrewood 0.8p
Finland 10⅜% Bd 1998 £103.75
Foreign & Colonial Inv Tst 0.86p
Fosters Brewing A$0.06
Hawtin 0.6p
Kansai Int Airport 7¼% Gtd Bd 2006 $725.0
Lambert Fenchurch 2.75p
Liberfabrica 0.41p
Liberty Life Assoc of Africa R2.02
Media Business 0.9p
Metal Bulletin 7.5p
MFI Furniture 3.1p
Portmeirion Potteries 3.3p
Premark $0.10
Pycraft & Arnold 0.75p
Real Time Control 7.5p
Rotork 3.9p
Somerfield 7.8p
State Elect Comm of Victoria 7⅞% Gtd Nts 2002 C$78.75
Stirling 1.82p
Sutton Harbour 2.35p
Utilitec 0.85p
Vibroplant 2.65p
Wagon Ind 5p
Ward 0.6p
Warner Estate 4.3p
Westminster Health Care 4.15p
Williams 6.25p
Wilshaw 0.7p

■ SATURDAY OCTOBER 3

Seeboard 8⅛% Bd 2005 8.5p
Tetra 0.6p

■ SUNDAY OCTOBER 4

RTZ 3.325% A Cm Pf 1.6625p
Do 3½% B Cm Pf 1.75p
Tarmac Fin (Jersey) Cv cap Bd 2006 £47.50

UK COMPANIES

■ TODAY

BOARD MEETINGS:
Finals:
Allied London Props
Close Bros
Community Hospitals
Manchester Utd
Premium Tst
Semple Cochrane
Interims:
Bisichi Mining
Capital & Regional Props
Core
London & Assoc Props
Magnum Power
Proudfoot
Ricardo
Seafield
United Energy
World Telecom

■ TOMORROW

COMPANY MEETINGS:
Stoves, 20, Fenchurch Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Consolidated Coal
Lyles (S)
Marylebone Warwick
Minerva
Northern Leisure
Interims:
Barr (AG)
Brent Int
Cobham
Derwent Valley
Hepworth
Intermediate Capital
Lamont
Ottakars
QS
Riverview Rubber Estates
United Assurance
Watts Blake Bearne

■ WEDNESDAY SEPTEMBER 30

BOARD MEETINGS:
Final:
Ball (AH)
Interims:
Bank of Scotland
Brands Hatch
Brooks Service
House of Fraser
Lambert Smith Hampton
Selfridges
Xaar

■ THURSDAY OCTOBER 1

BOARD MEETINGS:
Finals:
Brunel
Renishaw
Interims:
Alpha Airports
Andrews Sykes
Ashley (Laura)
Black Arrow
Martin Int

Company meetings are annual general meetings unless otherwise stated.
Reports and accounts are not available until six weeks after the board meeting to approve the preliminary results.
This list is not comprehensive since companies are not obliged to notify the Stock Exchange of announcements.

CONFERENCES, VENUES AND COURSES

CONFERENCES

CURRENCIES & MONEY

Focus on US rates

By Christopher Adams

The focus of currency markets will be glued to whether the US will cut interest rates. Speculation that the Federal Reserve will shave 25 basis points from the base rate has reached fever-pitch since Alan Greenspan, Fed chairman, hinted last week that a move might be imminent.

"It's pretty clear he is factoring in concern about the future of the US economy, even though current data show it to be relatively robust. Also, the inflation outlook has been improved by continued economic weakness worldwide," said Tony Norfield at ABN Amro.

The dollar has dropped versus the D-Mark in anticipation, losing half a pfennig on Friday to DM1.67. The Federal Open Markets Committee, which sets US interest rates, meets tomorrow.

The dollar could be further undermined by the collapse of Long-Term Capital Management, the US hedge fund.

Furthermore, other hedge funds are beginning to closeout trading positions following the collapse of LTCM and subsequent moves by banks to close down funding. As a result, the Swiss franc could gain at the expense of the dollar – it has traditionally been used by hedge funds to buy other currencies because of Switzerland's low interest rates.

Dealers are braced for a fresh fall in the yen. A survey of Japanese companies, the tankan report, is published on Wednesday. It is expected to show conditions during the third quarter deteriorated sharply from the previous quarter.

With attention on US interest rates, German elections have acquired less significance.

Chancellor Helmut Kohl may be fighting for his political life, but analysts believe the outcome of Sunday's polling will have little effect on the D-Mark.

"There isn't much concern the Social Democratic Party would do very much different to Kohl," said one.

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

Sep 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis rate	Repo rate
Belgium	3¼	3⅝	3⅝	3⅝	3⅝	6.00	2.75	–
week ago	3½	3½	3½	3⅝	3⅝	6.00	2.75	–
France	3⅝	3¼	3½	3½	3⅝	4.60	–	3.30
week ago	3⅝	3¼	3⅝	3¼	3½	4.60	–	3.30
Germany	3¼	3⅝	3½	3⅝	3⅝	4.50	2.50	3.30

$ LIBOR BBA London	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis rate	Repo rate
Interbank Fixing	–	5⅛	5⅜	5⅛	5⅛	–	–	–
week ago	–	5⅝	5½	5⅝	5⅝	–	–	–
US Dollar CDs	–	5.15	5.15	5.05	4.90	–	–	–
week ago	–	5.32	5.29	5.22	5.09	–	–	–
ECU Linked Ds	–	4⅛	4⅛	3⅞	3⅞	–	–	–
week ago	–	4¼	4⅛	3⅞	3⅞	–	–	–
SDR Linked Ds	–	3⅞	3½	3⅞	3⅞	–	–	–
week ago	–	3⅞	3½	3⅝	3⅞	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

POUND IN NEW YORK

Sep 25	--Close--	-- Prev. close --
£ spot	1.6965	1.6970
1 mth	1.6958	1.6940
3 mth	1.6900	1.6890
1 yr	1.6665	1.6560

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

EURO CURRENCY INTEREST RATES

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.97	94.96	–0.01	95.03	94.91	127,514	476,309
Mar	94.25	95.24	–0.02	95.33	95.17	166,467	480,143
Jun	95.35	95.31	–0.03	95.43	95.26	123,230	405,864

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.88	95.88	–	95.90	95.82	78	1,414
Mar	96.12	96.06	–	96.12	96.07	[illegible]	148
Jun	–	96.17	+0.06	96.12	–	2	22

All Open interest figs. are for previous day

OTHER CURRENCIES

Sep 25	£	$
Czech Rp	50.8951 - 51.0713	29.9580 - 29.9880
Hungary	371.598 - 371.986	218.330 - 218.430
Iran	5109.00 - 5108.00	3000.00 - 3000.00
Kuwait	0.5160 - 0.5169	0.3032 - 0.3035
Peru	5.1639 - 5.1737	3.0340 - 3.0350
Poland	6.0236 - 6.0542	3.5460 - 3.5650
Russia	27.3511 - 27.5375	16.0700 - 16.1700
U.A.E.	6.2308 - 6.2549	3.6726 - 3.6729

BANK RETURN

The Bank Return table can be found on page 35 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

D-MARK FUTURES (IMM) DM 125,000 per DM

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7491	0.7421	–0.0064	0.7577	0.7408	[illegible]	77,116
Mar	0.7650	0.7514	–0.0067	0.7650	0.7510	400	2,466
Jun	–	0.7600	–0.0071	–	–	737	1,125

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6892	1.6908	+0.0020	1.7014	1.6850	13,776	53,971
Mar	1.6930	1.6936	+0.0018	1.6930	1.6930	4	44
Jun	1.6730	1.6762	+0.0010	1.6730	1.6730	13	211

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

UK INTEREST RATES

LONDON MONEY RATES

Sep 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7⅝ - 6½	7¼ - 7	7⅝ - 7½	7⅝ - 7½	7⅛ - 7	6⅞ - 6¾
Sterling CDs	-	-	7⅝ - 7⅝	7⅝ - 7⅝	7¼ - 7⅛	7⅛ - 7⅛
Treasury Bills	-	-	7½ - 7⅜	7⅜ - 7½	-	-
Bank Bills	-	-	7½ - 7½	7½ - 7½	7¼ - 7¼	-
Local authority deps.	7 - 6⅞	7¼ - 7⅛	7⅝ - 7⅝	7⅝ - 7⅝	7⅛ - 7⅛	6⅞ - 6¾
Discount Market deps	7½ - 7½	7½ - 7½	-	7½ -	-	-

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on Sep 25, 6.7547pc. ECGD fixed rate Stlg. Export Finance. Make up day Aug 28, 1998. Agreed rate for period Sep 26, 1998 to Oct 25, 1998, Scheme III 8.99pc. Reference rate for period Aug 1, 1998 to Aug 28, 1998, Schemes IV & V 7.740pc. Finance House Base Rate 8pc from Sep 1, 1998.

BANK OF ENGLAND TREASURY BILL TENDER

	Sep 25	Sep 18		Sep 25	Sep 18
Bills on offer	£100m	£100m	Top accepted rate	6.7786%	6.9390%
Total of applications	£594m	£698m	Ave. rate of discount	6.7547%	6.9390%
Total allocated	£100m	£100m	Average yield	6.8704%	7.0612%
Min. accepted bid	£98.310	£98.270	Offer at next tender	£100m	£100m
Allotment at min. level	100%	97%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	Heritable & Gen Inv Bk	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.25	C. Hoare & Co	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	●Hambros Bank	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

BENCHMARK GOVERNMENT BONDS

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Treas 15½pc '98		100xd	–.1	935	Mr30 Se30	21.9	1308
Exch 12pc 1998		100⅝	–.1	3,909	My20 Nv20	11.5	1259
Treas 9½pc 1999		100⅜	—	1,800	Jy15 Ja15	6.7	1347
Treas Flg Rate 1999		100⅛	—	5,700	9Mr Je Se De	7.9	4945
Exch 12¼pc 1999		102⅜xd	—	3,050	Se26 Mr26	17.9	1264
Treas 10½pc 1999		102⅞	—	1,252	Nv19 My19	11.5	1298

	Notes	Price £	Wk % +/-	Amnt £m
Treas 6¾pc 2004		108⅛	0.1	6,500
Conv 9½pc 2005		123⅞	—	4,842
Exch 10½pc 2005		130⅛	—	23
Treas 12½pc 2003-5		132⅞	0.2	2,500
Treas 8½pc 2005		119⅜	—	10,373
Conv 9¾pc 2006		130⅜	–.1	6

Other Fixed Interest

EURO PRICES

EQUITIES

Europe awaits US rate decision

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European markets will spend the week with a watchful eye on the other side of the Atlantic for news on interest rates and the aftermath of the Long-Term Capital Management bailout.

The key event will be tomorrow's meeting of the US Federal Reserve open market committee, which many believe will lead to a cut in interest rates.

The Bundesbank council meets on Thursday but no rate change is expected from the German central bank.

Investors in banking stocks will be anxious to see if the "cockroach theory" holds out: the problems of one hedge fund mean that other disasters will be hiding in the skirting board.

The financial sector fell 2.5 per cent on Friday and, what with the emerging market crisis, it has provided 18 of the 25 worst FTSE Eurotop 300 index stocks since the correction began in mid-July.

On Friday, the FTSE Eurotop 100 index fell 35.25 or 1.5 per cent to 2,319.48, while the broader Eurotop 300 index slipped 14.21 to 1,012.25.

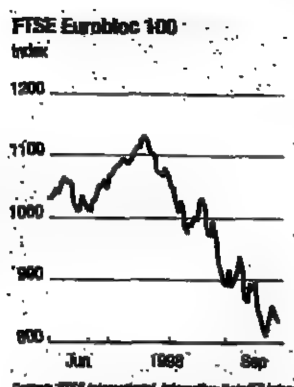
The FTSE Ebloc 100 index, made up of stocks in single currency countries, lost 11.77 to 833.94.

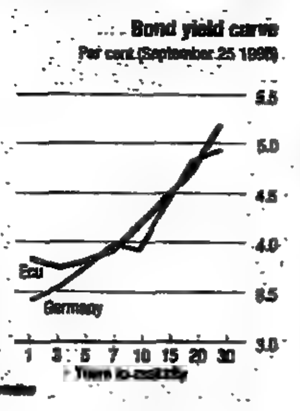
Corporate profits continue to be a worry after the recent warnings from Alcatel, Royal Dutch/Shell, Philips and UBS.

Salomon Smith Barney has reduced its earnings estimates for Europe to 6 per cent in 1998 and 8 per cent in 1999. But because of the fall in bond yields, that still leaves the investment bank expecting equity prices to rise by 17 per cent over the next 12 months.

For the fourth quarter of this year, the bank believes in a 3-d strategy: defensive, looking for non-cyclical industries with a low risk to earnings; domestic, concentrating on companies where most earnings arise in Europe; and dividends, searching for higher-yielding stocks.

Jan Harnett, director of European strategy at BT Alex Brown, says: "Our top-down analysis suggests 5-6 per cent earnings growth in 1999, although even this may be too optimistic if the lack of European rate cuts leads to further appreciation of the D-Mark. We recommend that investors should remain cautious."





FTSE Actuaries Share Indices — European series

September 25

National & Regional Markets	Euro index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro)
FTSE Eurotop 300	1012.25	-1.38	-14.21	2.74	23.01	1039.85
FTSE Eurotop 100	2319.48	-1.50	-35.25	2.75	30.84	828.58
FTSE Ebloc 100	833.94	-1.39	-11.77	2.41	14.89	845.60
FTSE Eurotop 300 Regions						
Eurobloc	1051.75	-1.38	-14.72	2.41	20.54	1073.19
UK	958.38	-1.76	-17.18	3.28	29.87	1000.83
Europe Ex-Eurobloc	981.85	-1.29	-12.82	3.10	24.45	1013.15
Europe Ex-UK	1043.82	-1.19	-12.58	2.49	18.11	1082.51
FTSE Eurotop Industry Sectors						
RESOURCES	866.85	+1.11	+9.51	3.34	25.78	902.65
Extractive Industries	748.44	-1.29	-9.81	4.89	14.54	784.25
Oil, Integrated	838.85	+1.22	+10.08	3.29	18.25	855.57
GENERAL INDUSTRIES	908.13	-1.27	-11.62	3.04	19.82	923.88
Construction	908.42	+0.13	+1.01	3.08	11.06	916.86
Building Matls & Merchs	781.38	-1.02	-7.84	2.95	8.93	787.94
Chemicals	788.98	-0.89	-5.37	3.14	16.87	781.99
Diversified Industrials	856.73	-0.99	-8.55	2.53	17.46	871.43
Electronic & Elect Equip	727.87	-2.04	-15.16	2.28	4.80	731.39
Engineering	774.61	-0.96	-7.59	4.27	10.80	782.96
Paper, Pckg & Printing	677.91	-2.48	-17.07	3.46	1.21	678.76
CONSUMER GOODS	1033.39	-1.39	-14.59	1.77	15.88	1058.97
Automobiles	800.78	-1.16	-9.43	3.25	10.25	808.20
Alcoholic Beverages	719.25	-2.90	-21.51	3.04	6.46	724.17
Food Producers	868.95	-0.74	-6.45	1.74	9.79	877.27
Household Goods & Txtls	832.15	-2.88	-24.21	2.33	7.81	837.59
Healthcare	883.39	-1.44	-12.88	1.35	9.82	892.37
Pharmaceuticals	929.58	-1.40	-13.19	1.40	4.81	934.15
Tobacco	1211.45	+0.81	+9.74	3.98	5.81	1218.11
SERVICES	1081.30	-1.25	-13.46	2.27	21.28	1089.29
Distribution	748.31	+0.50	+3.71	2.98	11.57	757.73
Leisure & Hotels	667.63	-2.24	-15.33	3.78	12.27	676.37
Media	946.52	-1.88	-18.11	2.35	10.39	956.31
Retailers, Food	963.63	+0.07	+0.66	2.21	11.37	974.79
Retailers, General	941.75	+0.10	+0.95	3.05	16.53	957.10
Telecommunications	940.06	-2.45	-23.59	2.07	13.02	951.40
Transport, Pubs & Restaurants	700.52	+0.25	+1.72	3.87	14.20	711.17
Support Services	854.86	-1.86	-16.23	1.67	8.06	861.27
Transport	911.83	+0.05	+0.43	2.70	15.09	925.19
Information Technology	984.53	+0.82	+7.81	0.38	2.23	956.70
UTILITIES	1402.93	+0.35	+4.84	3.15	53.32	1478.44
Electricity	1045.76	-0.90	-0.54	3.38	26.23	1073.89
Gas Distribution	1128.88	+3.82	+41.93	1.80	84.81	1263.70
Water	1086.54	+1.18	+12.53	4.70	36.72	1108.36
FINANCIALS	1026.14	-2.54	-26.80	2.20	26.89	1052.93
Banks,Retail	694.20	-2.70	-19.29	4.40	12.59	703.14
Insurance	816.20	-2.36	-19.76	1.70	11.46	825.72
Life Insurance	969.17	-2.65	-25.32	1.90	11.18	975.60
Other Financial	721.24	-2.11	-15.58	2.83	15.95	732.29
Investment Companies	808.48	-3.45	-28.80	3.17	28.69	823.80
Property	788.94	+0.59	+4.54	3.17	16.01	803.44

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THREE MONTH EURO FUTURES (LIFFE) Euro points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		95.910				0	0
Jun		95.535	+0.030			0	5198
Sep		95.530	+0.035			0	2083
Dec		95.520	+0.040			0	1337

THREE MONTH EURO OPTIONS (LIFFE) Euro points of 100% — [illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Eu20 per full index point — [illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Eu10 per index point — [illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

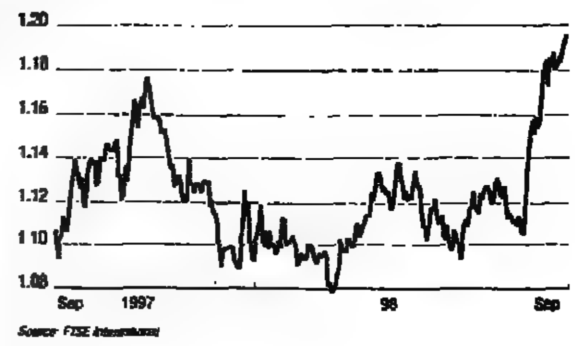
[illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Sep 25	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.058850	+0.0015	+0.01	-0.0007	+0.00
Belgium	BEF	41.213151	-0.0084	-0.02	-0.0074	-0.02
Czech Republic	CZK	35.833754	-0.0477	-0.13	-0.8148	-2.22
Denmark	DKK	7.598844	-0.0084	-0.11	-0.0197	-0.25
Finland	FIM	6.083339	+0.0015	+0.03	-0.0020	-0.03
France	FRF	6.698648	+0.0000	+0.09	+0.0007	+0.01
Germany	DEM	1.997881	+0.0002	+0.01	+0.0001	+0.00
Greece	GRD	346.740685	+1.5981	+0.45	+3.3578	+0.98
Hungary	HUF	281.085170	+0.4523	+0.17	+1.4900	+0.57
Ireland	IEP	0.798511	-0.0008	-0.10	-0.0000	+0.00
Italy	ITL	1975.235203	+0.7298	+0.04	+0.9049	+0.05
Luxembourg	LUF	41.213151	-0.0084	-0.02	-0.0074	-0.02
Netherlands	NLG	2.252086	-0.0006	-0.03	-0.0011	-0.05
Norway	NOK	8.844711	-0.0382	-0.43	-0.0123	-0.14
Poland	PLN	4.244218	+0.0243	+0.58	-0.0019	-0.04
Portugal	PTE	204.804447	-0.3117	-0.15	+0.0480	+0.02
Romania	ROL	10878.556158	+65.9379	+0.61	+158.0223	+1.47
Russia	RUB	19.272337	+0.3231	+1.71	-3.1688	-14.12
Slovakia	SKK	41.850724	+0.2253	+0.54	+0.6179	+1.51
Spain	ESP	169.625258	-0.1139	-0.07	-0.1489	-0.09
Sweden	SEK	9.418186	+0.0320	+0.34	+0.1543	+1.67
Switzerland	CHF	1.647225	-0.0089	-0.54	+0.0038	+0.23
United Kingdom	GBP	0.702269	-0.0010	-0.14	+0.0013	+0.18
Ecu	ECU	1.015863	-0.0008	-0.08	-0.0008	-0.08
Americas						
Brazil	BRL	1.415885	+0.0082	+0.58	+0.0212	+1.52
Canada	CAD	1.807798	+0.0100	+0.56	+0.0025	+0.14
Mexico	MXN	12.248455	+0.2271	+1.89	+0.2366	+1.98
United States	USD	1.195554	+0.0056	+0.47	+0.0144	+1.22
Pacific/Middle East/Africa						
Australia	AUD	2.030849	-0.0105	-0.51	+0.0286	+1.43
Hong Kong	HKD	9.262677	+0.0430	+0.47	+0.1127	+1.23
Japan	JPY	161.836221	+0.2838	+0.18	+4.9559	+3.16
Singapore	SGD	2.021085	-0.0232	-1.14	-0.0134	-0.65
South Africa	ZAR	6.984104	+0.0922	+1.34	-0.2508	-4.01

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the rates should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0840, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187



EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Sep 25	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward bill rate	Diff int rate v DEM
Austria	7.03552	7.0358	+0.00	+0.01	7.0363	3.53	+0.00
Belgium	20.6255	20.6283	+0.01	+0.03	20.629	3.51	+0.01
France	3.35386	3.3534	-0.01	-0.02	3.3536	3.52	+0.02
Finland	3.04001	3.0449	+0.16	+0.19	3.0439	3.33	-0.12
Ireland	0.402676	0.3997	-0.74	-0.73	0.4016	5.3	+1.80
Italy	990.002	988.6602	-0.14	-0.18	991.8173	4.71	+1.21
Luxembourg	20.6255	20.6283	+0.01	+0.03	20.629	3.51	+0.01
Netherlands	1.12674	1.1272	+0.04	+0.10	1.1268	3.37	-0.13
Portugal	102.505	102.5103	+0.01	-0.02	102.6786	4.12	+0.62
Spain	85.0722	84.9022	-0.20	-0.11	85.0715	4.25	+0.75
Germany	1		+0.00	+0.00		3.5	-0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3. Forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98, DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Sep 25	D-Mark Ask	D-Mark Bid	Ecu Ask	Ecu Bid	£ Stlg Ask	£ Stlg Bid	US $ Ask	US $ Bid	Yen Ask	Yen Bid
1 year	3.81	3.68	3.81	3.77	[illegible]	[illegible]	5.05	5.02	0.44	0.41
2 year	3.64	3.61	3.735	3.695	6.46	6.42	4.95	4.92	0.54	0.51
3 year	3.735	3.705	3.79	3.75	6.32	6.28	4.99	4.96	0.67	0.64
4 year	3.845	3.815	3.905	3.865	6.26	6.22	5.08	5.05	0.79	0.76
5 year	3.965	3.935	4.015	3.975	6.21	6.17	5.16	5.13	0.89	0.86
6 year	4.085	4.055	4.13	4.08	6.15	6.11	5.21	5.18	0.99	0.96
7 year	4.195	4.165	4.235	4.195	6.08	6.04	5.26	5.23	1.08	1.05
8 year	4.305	4.275	4.34	4.3	6.01	5.97	5.32	5.29	1.17	1.14
9 year	4.415	4.385	4.45	4.41	5.97	5.93	5.37	5.34	1.26	1.23
10 year	4.505	4.475	4.535	4.495	5.94	5.9	5.4	5.37	1.35	1.32
12 year	4.665	4.635	4.675	4.625	5.94	5.89	5.49	5.46	1.52	1.48
15 year	4.855	4.825	4.88	4.82	5.94	5.87	5.63	5.6	1.72	1.68
20 year	5.04	5.01	5.085	5.035	5.93	5.86	5.75	5.72	1.92	1.87
25 year	5.15	5.12	5.205	5.155	5.94	5.85	5.83	5.8	2	1.95
30 year	5.255	5.225	5.28	5.22	5.94	5.84	5.91	5.88	2.08	2.03

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR, D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Sep 25	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	111.230	4.28	+0.02	-0.28	+0.10
France (Rep of)	04/08	5.250	N/A	108.030	4.10	-0.02	-0.28	-0.08
Italy (Rep of)	05/08	5.000	AA	104.680	4.37	+0.00	-0.30	+0.19
Portugal (Rep of)	06/08	5.375	AA-	107.900	4.36	+0.00	-0.32	+0.18
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.700	3.94	-0.07	-0.24	+0.13
Gen Electric Cap Crp	10/04	5.500	AAA	107.940	3.99	-0.10	-0.32	+0.13
Dest Postbank	04/08	5.250	AAA	106.700	4.37	-0.05	-0.29	+0.19
Cred Local de France	04/08	5.250	AA+	105.420	4.54	-0.02	-0.30	+0.36
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	102.572	3.96	-0.02	-0.23	+0.22
Cred Foncier France	03/04	8.375	A	118.841	4.41	-0.14	-0.45	+0.55
Euro Inv Bank	04/04	5.250	AAA	106.920	3.84	-0.03	-0.30	-0.02
ABN Amro Hldg. NV	04/07	6.375	AA-	110.980	4.78	-0.03	-0.04	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Sep 25	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.06	+0.12	+0.28	+0.06	-0.25	+0.13
Belgium	-0.12	+0.05	+0.14	+0.12	+0.15	+0.00
Finland	-0.22	+0.19	+0.18	+0.19	-0.06	-0.81
France	-0.28	-0.08	-0.09	-0.06	-0.03	-0.21
Germany	-0.23	-0.08	+0.05	-0.28	+0.10	-0.25
Ireland	+0.28	-0.03	+0.09	+0.17	+0.27	+0.46
Italy	+0.20	+0.28	+0.31	+0.25	+0.22	+0.17
Luxembourg	-0.12	+0.05	+0.14	+0.12	+0.15	+0.00
Netherlands	-0.14	+0.08	+0.06	-0.05	+0.07	-0.18
Portugal	-0.05	+0.20	+0.25	+0.28	+0.42	+0.31
Spain	-0.13	+0.12	+0.26	+0.21	+0.37	+0.28
"Outs"						
Denmark	+0.85	+0.73	+0.82	+0.56	+0.33	+0.76
Greece	+8.14	+4.65	+4.83	+4.03	+3.04	+2.59
Sweden	+0.68	+0.78	+0.83	+0.72	+0.66	+0.21
UK	+2.05	+1.36	+1.23	+0.70	+0.19	-0.51

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Sep 25	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.12	+0.11	+0.25
France Telecom	AA+	11/08	6.250	FRF	+0.19	+0.18	+0.13
Halifax	AA	07/07	5.625	DEM	+0.42	+0.34	+0.19
Ing Bank NV	AA-	01/08	5.500	NLG	+0.17	+0.14	+0.18
Bayer Hypo W Hk	AA-	02/02	6.750	ITL	+0.27	+0.32	+0.34
Cred Foncier	A	02/03	7.250	DEM	+0.54	+0.85	+0.64
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.40	+0.40	+0.34
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.32	+0.34	+0.28
Bank of China	BBB	07/99	7.125	DEM	+1.82	+2.49	+5.11
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+1.14	+1.47	+1.11
Korea Dev Bank	BB+	11/02	5.625	FRF	+8.01	+8.45	+7.80
Argentina	BB	04/08	8.125	XEU	+7.32	+7.93	+5.45

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Allied Domecq	†N	418½	-1.3	Q24.73	1.7	4,373	11.5	1520
Bulmer (HP)		300	-6.7	15.8	1.5	158.4	10.8	2005
Burn Stewart	♣	17	—	1.7	-	6.52	27.10	1518
Diageo	sq#	490½	-9.7	Q19.8	1.5	17,230	30.3	2791
Glenmorangie A		807½	-1.5	14.2	3.0	108.8	13.7	3257
B		897½	-1.1	7.1	3.0	35.9	13.7	3258
Highland	†	235½	1.1	9.8	2.4	314.8	5.5	2880
5¼pc Cv Sb Bd		93	—	Q5¼%	-	46.5	5.1	2823
Kirin Y		478½	-2.7	Q24%	-	5,032	25.12	1119
Matthew Clark	♣	120xd	-5.9	13.0	2.3	186.2	3.8	2153
Merrydown		34	—	-	-	9.91	7.97	3352
Seagram C$		£18⅛	-1.4	Q8%	-	6,366	28.8	—

BANKS, RETAIL

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
ABN Amro Fl		£10⅔	-8.7	Q84%	2.2	14,705	7.5	1018
ANZ A$		307½	-7	Q48c	1.5	4,695	12.96	—
Abbey National	†	1026xd	-8.8	32.25	2.1	14,597	10.8	5411
Alliance & Leicester	♣†	860xd	-2	22.4	2.4	5,022	7.5	5600
[illegible]								

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
Taylor Wood	♣N	164xd	-2.1	Q5.12	3.2	663.9	14.9	4177
Tilbury Douglas	♣†	230½	-5.5	9.8	1.7	215.1	23.3	4230
Try	†	18	—	0.95	3.5	12.5	18.3	4365
UWE	♣	74½xd	—	1.5	3.4	22.8	14.9	3282
Vibroplant	♣	60xd	-1.6	4.05	-	27.7	1.9	4097
[illegible]								

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL, EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% chnge	Div net	Div cov.	Mkt capGm	Last xd	City line
Anglo Am Ind R		875	9.3	Q90c	2.7	5237	8.12	–
Barlow R	‡	520	0.5	Q128c	2.5	470.0	8.12	–
Investec Group		£17¾	19.0	–	–	–	–	–
Investec Hldgs		£16⅞	19.0	–	–	–	–	–
SA Breweries R		392	23.1	Q83c	2.0	2472	1.6	–
Standard Bank R		292	4.4	Q43c	3.2	3929	6.97	–
Tiger Oats	†	498	–	Q175c	2.8	904.7	8.4	–
Tongaat-Hulett R		377½	-8.9	Q148c	2.8	396.2	8.12	–

TRADED INDEX SECURITIES

	Notes	Price	W'k% chnge	Div net	Div cov.	Mkt capGm	Last xd	City line
FTSE 100 TRANS		[illegible]	–	–	–	–	14.9	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE Index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading Service ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 21(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- [illegible] Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- [illegible] Indicated dividend after pending scrip and/or rights issue, cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- [illegible] Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h [illegible] as interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

x Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W [illegible] Z Dividend total to date.

Abbreviations: [illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: [illegible] (Ins), British Reg Air Lines (Tran), [illegible] Pictures (AIM). Deletions: [illegible], Courtaulds (Chem), EIS (Eng), [illegible] Capital (Inv), Tracer Petroleum (OIE), AG (PP&P), Fitzwilton (R&G).

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The FT web site

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Offshore Funds

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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ABN AMRO Funds - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Frontrunner I (u)

Mercury Asset Management - Contd.

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Friends Provident International

General International Limited

Hansard Europe Limited

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 25 / Sch)

BELGIUM/LUXEMBOURG (Sep 25 / Frs.)

CZECH REP (Sep 25 / Koruna)

DENMARK (Sep 25 / Kr)

FINLAND (Sep 25 / Mkk)

FRANCE (Sep 25 / Frs.)

GERMANY (Sep 25 / Dm.)

GREECE (Sep 25 / Drachma)

ITALY (Sep 25 / Lira)

NETHERLANDS (Sep 25 / Fls.)

NORWAY (Sep 25 / Kroner)

POLAND (Sep 25 / Zloty)

PORTUGAL (Sep 25 / Escudo)

SPAIN (Sep 25 / Pta.)

SWEDEN (Sep 25 / Kronor)

SWITZERLAND (Sep 25 / Frs.)

TURKEY (Sep 25 / TL Lira)

PACIFIC

JAPAN (Sep 25 / Yen)

HONG KONG (Sep 25 / H.K.$)

INDONESIA (Sep 25 / Rupiah)

MALAYSIA (Sep 25 / MYR)

NEW ZEALAND (Sep 25 / NZ $)

SINGAPORE (Sep 25 / S$)

AUSTRALIA (Sep 25 / Aust$)

SOUTH KOREA (Sep 25 / Won)

TAIWAN (Sep 25 / TW $)

THAILAND (Sep 25 / Baht)

AFRICA

SOUTH AFRICA (Sep 25 / Rand)

AMERICAS

CANADA

TORONTO (Sep 25 / Can $) 4 pm close

MONTREAL (Sep 25 / Can $) 4 pm close

MEXICO (Sep 25 / Peso) 12:30pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 25 1998 US Dollar Index	% chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY SEPTEMBER 24 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	175.26	-12.4	152.83	148.96	152.28	197.80	-3.1	3.78	177.06	156.14	151.95	154.64	202.00	230.24	163.65	237.59
Austria (22)	182.18	-3.6	158.66	155.88	158.28	158.17	-10.4	2.14	184.30	161.48	158.16	160.85	160.75	253.73	176.88	208.48
Belgium (22)	350.47	37.7	305.21	299.88	304.48	297.94	28.1	2.30	353.84	310.03	303.68	308.82	302.27	386.52	234.33	245.19
Brazil (32)	135.09	-43.3	117.64	115.59	117.36	294.48	-39.8	3.13	140.04	122.70	120.18	122.22	304.94	308.59	102.68	272.62
Canada (119)	181.20	-14.7	157.80	155.05	157.42	198.40	-9.9	2.02	183.01	160.36	157.06	159.73	200.22	248.78	167.18	224.22
Denmark (34)	449.50	0.5	391.45	384.61	390.51	388.57	-6.8	1.68	448.91	393.31	385.25	391.80	390.33	537.33	404.61	404.81
Finland (28)	409.41	47.8	356.54	350.31	355.69	437.19	37.4	2.10	416.00	364.50	357.00	363.08	446.21	506.46	267.59	319.51
France (78)	276.63	15.6	240.91	236.70	240.33	243.17	7.7	2.52	281.47	246.62	241.56	245.66	248.58	345.18	217.58	238.83
Germany (55)	254.82	11.1	221.92	218.04	221.39	221.38	3.2	1.44	258.34	226.36	221.70	225.47	225.47	325.81	204.89	231.72
Greece (37)	260.34	0.0	226.72	222.76	226.18	541.26	0.0	1.74	264.65	231.89	227.12	230.98	550.27	333.20	243.18	–
Hong Kong, China (68)	233.29	-34.7	203.17	199.62	202.68	232.05	-34.7	6.38	236.19	206.95	202.69	206.14	234.94	518.79	196.64	510.18
Indonesia (26)	21.28	-67.8	18.53	18.21	18.49	141.63	-38.4	4.82	21.93	19.21	18.82	19.14	147.29	156.30	18.04	158.30
Ireland (16)	442.25	10.1	385.14	378.41	384.21	416.20	4.8	2.28	447.06	391.72	383.66	390.19	423.13	560.44	359.60	371.18
Italy (54)	138.75	17.9	120.83	118.72	120.54	171.20	10.2	1.71	141.44	123.93	121.39	123.45	175.28	184.49	103.30	113.48
Japan (480)	80.18	-15.8	69.82	68.60	69.65	68.60	-12.4	1.15	82.14	71.97	70.49	71.69	70.49	122.22	78.40	122.22
Malaysia (106)	108.82	-33.8	94.77	93.12	94.54	159.26	-35.4	3.59	109.05	95.56	93.58	95.17	158.59	319.52	73.52	301.47
Mexico (29)	1049.55	-41.8	914.02	898.06	911.83	11758.41	-26.0	2.32	1063.58	931.91	912.75	928.27	11747.79	1901.98	787.15	1837.45
Netherlands (27)	437.13	6.7	380.69	374.04	379.77	375.82	-0.9	2.48	441.41	386.77	378.82	385.26	381.40	582.38	390.30	411.38
New Zealand (14)	46.65	-30.0	40.62	39.91	40.52	49.92	-28.6	6.15	47.02	41.20	40.35	41.04	50.59	95.87	45.68	92.39
Norway (37)	209.59	-34.4	182.53	179.34	182.09	210.46	-34.1	2.99	213.36	186.95	183.10	186.22	216.18	374.64	200.58	348.55
Philippines (22)	48.41	-37.7	48.03	42.28	42.92	107.78	-31.7	1.51	49.69	43.53	42.64	43.36	108.82	106.98	42.48	99.28
Portugal (18)	224.47	0.0	195.49	192.07	195.02	263.20	0.0	1.24	230.31	201.80	197.65	201.01	271.73	299.39	224.47	–
Singapore (41)	125.08	-44.4	108.93	107.03	108.67	97.45	-44.3	3.08	124.00	108.65	106.41	108.22	98.17	304.85	102.45	301.10
South Africa (39)	185.62	-30.1	161.65	158.83	161.26	236.32	-16.3	3.80	184.46	161.63	158.30	161.00	232.83	346.28	151.55	326.23
Spain (31)	321.74	18.4	280.20	275.30	279.53	345.83	10.2	2.21	317.25	277.97	272.26	276.89	342.83	417.73	236.28	271.22
Sweden (49)	447.13	-4.8	389.39	382.59	388.46	521.33	-5.5	2.26	446.07	390.85	382.81	389.32	520.77	620.19	430.02	525.01
Switzerland (29)	354.01	3.9	308.29	302.91	307.56	302.39	-1.9	1.38	364.25	316.92	304.53	309.71	306.19	438.48	301.11	314.30
Thailand (36)	11.79	-38.9	10.26	10.09	10.24	17.77	-50.7	5.31	11.43	10.01	9.81	9.97	17.59	45.52	8.15	45.25
United Kingdom (209)	335.10	1.0	291.83	286.73	291.13	291.83	-2.4	3.36	329.61	287.57	291.45	296.41	297.57	401.84	314.38	323.65
USA (622)	426.26	7.5	371.22	364.74	370.33	426.26	7.5	1.54	425.65	372.96	365.28	371.50	425.65	485.86	358.31	381.98
Americas (802)	379.93	5.5	330.87	325.09	330.08	322.06	6.0	1.57	379.66	332.65	325.82	331.37	321.80	437.03	326.79	349.39
Europe (745)	309.98	7.2	269.95	265.24	269.31	277.96	1.4	2.43	313.43	274.63	268.98	273.55	282.62	386.24	267.44	285.47
Eurobloc (351)	89.08	0.0	77.57	76.22	77.39	83.73	0.0	2.05	90.18	79.02	77.39	78.71	85.17	113.28	85.88	–
Nordic (149)	415.18	0.7	361.55	355.24	360.60	412.15	-2.2	2.17	416.49	364.85	357.35	363.43	414.73	555.97	388.51	446.90
Pacific Basin (863)	86.03	-18.8	74.92	73.61	74.74	74.59	-15.4	1.91	87.86	76.98	75.40	76.68	76.44	138.20	83.28	138.20
Euro-Pacific (1608)	179.31	-1.6	156.16	153.43	155.78	150.99	-4.4	2.29	181.80	159.29	156.02	158.67	153.86	220.19	172.09	188.67
North America (741)	409.84	6.5	356.91	350.68	356.06	410.63	6.8	1.56	409.42	358.74	351.36	357.34	410.20	469.20	349.06	372.28
Europe Ex. UK (536)	287.32	10.7	250.22	245.85	249.62	262.92	3.7	1.96	290.18	254.26	249.03	253.26	266.95	365.32	236.86	258.19
Europe Ex. Eurobloc (394)	85.23	0.0	74.22	72.93	74.04	82.65	0.0	2.02	86.06	75.40	73.55	75.11	84.00	103.93	83.13	–
Europe Ex. UK Ex. Eurobloc (185)	84.92	0.0	73.96	72.67	73.78	80.89	0.0	1.67	85.29	74.55	73.02	74.26	81.63	108.21	82.62	–
Pacific Ex. Japan (383)	143.38	-28.5	124.86	122.68	124.56	152.19	-24.7	4.77	144.70	126.79	124.18	126.29	154.46	277.07	128.26	277.07
World Ex. Eurobloc (2098)	88.44	0.0	77.02	75.67	76.83	88.53	0.0	1.86	88.82	77.82	76.23	77.52	89.05	103.16	83.88	–
World Ex. US (1827)	179.60	-3.6	156.41	153.68	156.03	155.59	-5.6	2.30	182.36	159.52	156.24	158.90	158.42	221.91	175.30	203.95
World Ex. UK (2240)	251.94	2.1	219.40	215.57	218.88	228.12	1.4	1.72	253.12	221.73	217.23	220.92	229.56	290.02	234.24	254.94
World Ex. Japan (1969)	347.78	4.4	302.87	297.58	302.14	336.75	2.6	1.97	343.06	325.85	293.56	304.65	338.67	411.23	309.33	331.11
The World Index (2449)	259.04	2.0	225.59	221.65	225.05	233.99	1.0	1.89	261.50	229.25	223.56	227.36	235.80	306.56	241.30	260.82

Emerging markets: IFC investable indices

Dollar terms

Sept 24 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	794.98	-4.1	-34.1
Brazil	286.75	-4.2	-40.6
Chile	395.86	-1.6	-38.4
Colombia[1]	330.20	+2.0	-60.0
Mexico	455.64	-4.1	-42.2
Peru[2]	137.13	+1.9	-38.1
Venezuela[3]	321.16	+3.4	-64.9
East Asia			
China[4]	28.69	+2.9	-48.1
India[5]	67.76	+2.8	-18.7
Indonesia[6]	10.66	+13.9	-68.3
Korea[7]	23.60	+7.6	-1.8
Malaysia	61.66	+2.5	-32.3
Pakistan[8]	106.40	-2.3	-57.2
Philippines	71.85	+8.0	-38.5
Sri Lanka[10]	64.15	+1.7	-44.9
Taiwan, China[4]	108.87	+0.4	-22.8
Thailand	42.10	+13.1	-10.5
Europe			
Czech Rep	44.78	+4.6	-18.2
Greece	477.80	+2.5	+47.4
Hungary[11]	208.67	+8.9	-33.7
Poland[12]	537.55	+6.4	-9.8
Portugal	253.96	+0.8	+20.3
Russia	15.73	+1.5	-89.4
Slovakia	52.56	-1.0	-47.0
Turkey[13]	164.76	+10.3	-47.2
Mideast/Africa			
Egypt	89.97	-0.3	-34.9
Israel	108.43	-1.3	-10.9
Jordan	222.89	-0.1	+5.9
Morocco	183.38	+0.1	+40.8
S Africa[15]	122.34	+3.2	-31.9
Zimbabwe[16]	97.06	-14.2	-61.4
Regions			
Comp ex Mal	165.92	+0.7	-
Asia ex Malay	79.31	+3.7	-
Composite	163.73	+0.8	-33.4
Latin America	308.62	-3.3	-41.2
Asia	76.72	+3.5	-28.8
EMEA	106.51	+3.0	-27.9
Europe	129.45	+4.3	-31.3
Eastn Europe	47.87	+6.4	-65.9
ME & Africa	54.18	+1.8	-24.3

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Mar 6 1992; (8)Sep 30 1993; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)May 2 1996; (16) July 2 1993.
Latest indices were unavailable for this edition.

Prices supplied by Telekurs, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges [illegible]

★ FT Free Annual Reports Club [illegible]

4 pm close September 25

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Exel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8028.77	8001.99	8154.41	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.19	106.08	105.92	106.19 (25/9)	104.42 (11/5)	106.19 (25/9/98)	54.99 (1/10/81)
Transport	2795.83	2831.24	2904.10	3686.02 (16/4)	2818.75 (4/9)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.74	298.72	302.98	302.98 (23/9)	262.66 (9/1)	302.98 (23/9/98)	10.50 (8/7/32)

DJ Ind. Day's high n/a (8227.53) Low n/a (7908.73) (Theoretical)
Day's high 8096.44 (8182.47) Low 7969.99 (7926.62) (Actual)

Standard and Poors	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1044.75	1042.72	1066.09	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials♥	1246.57	1242.84	1266.37	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial♥	111.98	112.27	116.90	147.69 (14/7)	102.25 (10/9)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	515.68	516.59	526.85	600.75 (17/7)	490.60 (31/8)	600.75 (17/7/98)	4.84 (25/4/42)
Amex Comp	639.99	642.30	646.09	753.67 (22/4)	585.07 (31/8)	753.67 (22/4/98)	524.29 (16/7/98)
NASDAQ Cmp	1743.59	1720.34	1760.27	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	369.02	370.25	378.09	491.41 (21/4)	337.95 (31/8)	491.41 (21/4/98)	123.36 (7/12/90)

RATIOS

	Sep 18	Sep 11	Sep 4	Year ago
Dow Jones Ind. Div. Yield	1.89	1.91	1.85	1.67
	Sep 23	Sep 16	Sep 9	Year ago
S & P Ind. Div. yield	1.37	1.40	1.43	1.50
S & P Ind. P/E ratio	31.07	30.41	28.54	25.42

US DATA

MARKET ACTIVITY

● Volume (million)	Sep 25	Sep 24	Sep 23
NYSE	727.582	805.846	900.280
Amex	28.219	33.419	36.428
NASDAQ	703.328	819.077	938.810

NYSE	Sep 25	Sep 24	Sep 23
Issues Traded	3,503	3,525	3,520
Rises	1,442	1,074	2,367
Falls	1,585	2,019	782
Unchanged	476	432	380
New Highs	38	44	60
New Lows	155	126	119

NYSE TRADING ACTIVITY

Volume : 727,582,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Travlr	10,493,800	40¾	–¼
Compaq	9,473,500	33½	+1
Coca C	8,848,000	68¼	–½
ChaseM	8,507,100	45⅛	–1⅛
Mattel	8,827,900	30	–¼
MetroBk	8,143,400	58	+1⅞
Citicp	5,907,700	100⅞	+¾
BankAm	5,850,300	62⅞	+2⅞
GenElec	5,576,500	83¼	+1⅛
MicronTech	4,808,000	33⅝	+2⅝

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Bell In	11⅞	+1⅝	+15.0
Payless	24⅛	+2⅛	+11.7
Aames	20	+1⅞	+8.2
Armstrg	43¼	+3⅞	+8.8
Downs			
Unifi Inc	16⅞	–4⅛	–20.8
TeradCp	14⅝	–1⅝	–10.9
CompSci	62⅞	–4⅞	–9.3
OlinCp	26⅝	–2⅝	–9.1

NASDAQ TRADING ACTIVITY

Volume :703,328,000

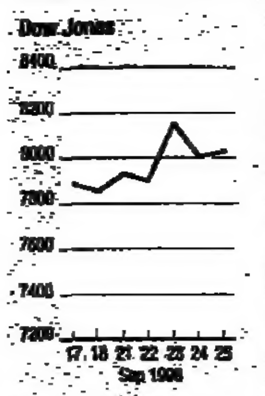
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	37,054,300	66¼	+2⅝
Intel	17,305,600	86¼	+3
Micsft	11,946,300	113¼	+2⅞
Excite	11,864,300	40⅝	+1¼
WorldCm	11,481,000	50⅝	+1⅝
Conw Cp	11,380,800	14¼	+⅝
CiscoSys	11,070,700	65¼	+1⅝
3Com	10,385,800	32¼	+1⅛
Yahoo	9,893,800	121	+6⅝
SunMic	9,200,000	52⅝	+1⅞

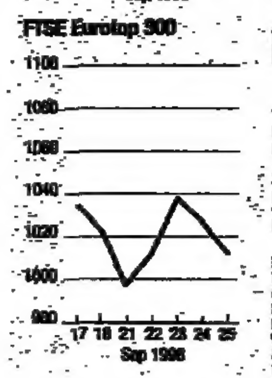
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
MetamFls	32¼	+4⅝	+18.3
CommTels	24	+2⅞	+13.3
ElectSci	17	+1⅞	+12.4
STAR Tel	14⅛	+1⅛	+12.0
Downs			
Ciril	15⅛	–2⅞	–15.6
WernBCp	14	–2⅝	–15.2
Brdwn	12¼	–1⅞	–12.9
CBT ADR	28⅝	–3⅛	–10.0

Dow Jones



FTSE Eurotop 300



JAPAN

	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	13723.84	14205.78	(c)	17264.34	13597.30	38915.8	85.25

Day's High: 14067.85. Day's low: 13678.47.

TOKYO TRADING ACTIVITY

Volume : 388,000,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
NKK	25,509,000	72	–8
Sakura	18,703,000	207	–18
ShwDen	11,913,000	80	–22
NpSti	8,985,000	185	–8
LgTrdCr	8,443,000	34	
Toshiba	6,708,000	483	–21
UTokMa	6,529,000	977	–36
SumTrB	6,025,000	393	–40
FujiBk	5,893,000	341	–32
Hitachi	5,194,000	120	–13

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
NCR Jp	620	+45	+7.8
Downs			
ShwDen	80	–22	–21.6
SumTrB	393	–40	–13.8
FujiFM	212	–31	–12.8
MitEnS	85	–12	–12.4
SanEICn	174	–21	–10.8
NSK	465	–53	–10.2
NKK	72	–8	–10

FRANCE

	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3310.59	3381.13	3423.78	4388.48	2852.54	4388.48	984.61

Day's High: 3320.34 Day's low: 3240.81

PARIS TRADING ACTIVITY

Volume : 686,164,140

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Paribas	2,198,969	330.9	–33.1
FrTele	2,113,705	370	–17
Alcatel	2,111,013	524	–7
Axa	1,575,091	543	–31
RhonePA	1,238,979	224.9	–7.1
BNP	1,185,909	322	–24.5
SocGen	1,188,062	678	–66
TotalB	784,919	720	+26
Schndr	737,759	295.5	–22.5
Usinor	735,021	58.9	+0.8

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Alstom	117.8	+6.4	+5.7
Salia	327	+16	+5.1
Unibail	747	+26	+3.6
GrpBTM	479.6	+16.6	+3.6
Downs			
Chrgrs	263	–39	–12.9
CPR	236.2	–31.8	–11.9
Paribas	330.9	–33.1	–9.1
SocGen	678	–66	–8.9

GERMANY

	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4501.52	4648.25	4669.30	6171.43	4057.26	6171.43	931.18

FRANKFURT TRADING ACTIVITY

Volume : 11,764,858

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Dt Bk	3,217,141	92.1	–7.2
DrsdBk	1,009,082	65.8	–4.2
Cmrzbk	931,337	48.5	–1.2
Siemns	881,676	90.5	–3.3
Dt Tel	839,243	52	–0.26
Bayer	605,016	62.6	+0.3
Dalmlr	545,127	146.2	–1.8
Lufthn	521,022	37	+0.6
BASF	415,869	62.5	+0.8
Mannsm	358,792	149.5	–3

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
MchRkP	535	+65	+13.8
RhenPf	32.9	+1.8	+5.8
Praktg	670	+27	+5.0
Adidas	196.5	+7.5	+4.0
Downs			
SGLCar	96	–11.5	–10.7
Dt Bk	92.1	–7.2	–7.3
BMWPf	625	–45	–6.7
Puma	29	–2	–6.5

UK

	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5061.0	5157.5	5214.7	6179.0	4600.3	6179	986.9

Day's High: 5167.6. Day's low: 5016.0

LONDON TRADING ACTIVITY

Volume : 849,600,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Telewest	25,595,750	132	–6
Centrica	19,309,500	121	+4
Solvera	17,028,460	7¼	–¼
Lloyds TSB	15,964,460	861	–29
Sedgemoor	15,541,040	27	
BAT	14,474,030	453	–20
Shell T&T	14,138,320	369	+7½
Tesco	13,996,690	163½	–3½
Glaxo	13,730,960	1709	–60
Smithkline	12,445,420	682	–12

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Sherwood Gp	36	+6½	+22.0
Lookers	78	+14	+21.9
Bocongemele	91½	+14	+18.1
Litteshall	78	+8½	+12.1
Downs			
Ionica Gp	14½	–7¼	–33.0
Aeromascan	4¼	–1	–19.1
Alpha Air	38½	–8½	–18.1
Sallire	8½	–1½	–15.0

INDEX FUTURES

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
S&P 500							
Dec	1053.00	1051.00	–2.80	1083.50	1032.70	116,142	381,767
Mar	1049.50	1080.80	–2.70	1086.00	1048.50	143	8,708
Nikkei 225							
Dec	13940.0	13490.0	–480.0	13950.0	13640.0	27,007	170,631
Mar	13810.0	–	–	13810.0	13740.0	3	6,228
CAC-40 (200 x index)							
Sep	3329.0	3300.0	–28	3307.0	3300.0	147,193	172,181
Oct	3338.5	3309.0	–86	3340.0	3249.0	46,111	43,140
DAX							
Dec	4555.0	4624.0	–26.0	4624.0	4473.0	30,394	66,408
Mar	4572.0	4681.0	–42.5	4650.0	4580.0	120	1,013
OMX							
Sep	575.25	584.25	–8.25	588.00	575.25	12,820	32,361
Oct	578.25	590.00	+3.50	590.75	579.00	38,030	168,850
SOFFEX							
Dec	5999.0	6125.0	–10.0	6150.0	5868.0	38,138	130,029
Mar	5950.0	6155.0	–169.0	5950.0	5950.0	55	3,101

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Sep 25	Sep 24	Sep 23	1998 High	1998 Low	Yield	P/E
Hungary	Bux	4281.26	4605.00	4916.41	9016.38 22/4	3775.02 21/9	na	na
India	BSE Sens.	3223.57	3225.30	3135.42	4280.96 21/4	2882.55 1/9		
	Cntl 500	636.04	631.55	622.28	816.82 21/4	573.02 18/6	na	na
Indonesia	Jakarta Comp.	275.22	282.16	262.25	554.10 2/2	258.88 21/9	3.51	10.80
Portugal	BVL 30	4208.40	4337.22	4304.89	6176.88 22/4	3979.27 2/1	2.24	23.40
	PSI 20	9576.36	9867.50	9793.68	14292.88 22/4	8081.84 2/1		
Russia	RTS	47.88	48.31	47.85	411.81 5/1	47.08 25/9	na	na
Singapore	SES All-S'pore	284.85	285.90	277.34	437.86 19/3	258.20 4/9	3.09	13.60

Bing group Richter bucked the downward trend, gaining 5.4 per cent.

Closed flat on position squaring, although sentiment positive on hopes that India would sign the global nuclear treaty.

Down on mega-low volumes.

THE NASDAQ STOCK MARKET

4 pm close September 25

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close September 25

EASDAQ

FT GUIDE TO THE WEEK

MONDAY 28

Kosovo crunch

The Yugoslav government has called an emergency session of parliament in Belgrade at which it will submit proposals on the future status of Kosovo aimed at ending the present conflict. The proposals, which come against a background of increasingly vocal Nato threats of military intervention, are intended to counter the US-backed plan unveiled by leaders of the ethnic Albanian majority in Kosovo last week. This called for a three-year period in which Kosovo would enjoy independence within the Yugoslav republic with a status similar to Serbia and Montenegro. The Serb-dominated government rejects this plan, as it does an alternative plan for a referendum in Kosovo on the province's future.

Yeltsin accused

The parliamentary commission investigating the possibility of impeachment charges against Boris Yeltsin, the Russian president, is scheduled to meet. The Communist-led commission, which is looking into events surrounding the Chechen insurrection of 1994-96, has already accused the president of illegally dissolving the Soviet Union and of provoking the attack on parliament in 1993. Former defence minister Pavel Grachev is due to testify.

Women's pitch

Britain's historic and influential Marylebone Cricket Club ballots members for the third time in recent years on whether its 211-year-old rule banning women as members should be overturned. Reformers believe the rule has cost the sport millions of pounds in support from would-be sponsors.

Agricultural reform

European Union farm ministers meet to consider the effects of Russia's

financial crisis on agricultural exports, with sales of beef, pork, poultry and dairy products all hit by the collapse of the rouble. They will also debate a plan by the European Commission to pay special subsidies to wine producers to raise their quality, and a proposal by the UK, Sweden, Denmark and Italy to phase out milk quotas. No final decisions are expected.

Export zones

Representatives of governments, trade unions and employers meet this week at the International Labour Organisation in Geneva to discuss how to improve conditions of work in export processing zones (EPZs). According to the ILO, there are 850 EPZs employing 27m people. While generating employment, especially for women, EPZs in most countries offer low-paid unskilled jobs with poor working conditions. The ILO says with a few exceptions EPZs have also failed to trigger more broadly-based development.

Marylebone Cricket Club votes on the admission of women members on Monday

Damages claims

The United Nations compensation commission meets in Geneva to consider claims against Iraq arising out of the invasion of Kuwait in 1990. The meeting will consider individual claims for damages over $100,000 and claims from governments. The commission has already approved 1.4m claims totalling $7bn for death, injury and financial loss. The compensation is financed from 30 per cent of the proceeds from Iraqi oil sales under the UN's "oil-for-food" programme.

FT Survey

Romania.

TUESDAY 29

Heightened interest

The US Federal Reserve's Board's policy-making open market committee meets in Washington today and is widely expected to lower interest rates to counter the effects in the US of the global economic crisis.

Ukrainian problems

The Ukrainian government is likely to face resignation calls when its council of ministers presents a report to parliament on the country's social and economic problems in the wake of the Russian financial crisis. Former prime minister Pavlo Lazarenko, leader of the opposition Hromada party, is expected to lead demands for change.

Basque breakthrough

Jose Maria Aznar, the Spanish prime minister, is scheduled to hold a historic meeting with the leader of the Basque National party, Xabier Arzalluz, in which the decision of the Basque terrorist group Eta to call a permanent ceasefire is likely figure prominently.

Floating palace

The world's biggest cruise ship, the Grand Princess, will be christened in New York following her maiden voyage from Istanbul. The £300m liner is taller than Niagara Falls.

Holiday

Israel.

FT Survey

Malta.

WEDNESDAY 30

Trade deal revision

EU external affairs commissioner Joao de Deus Pinheiro and 71 African, Caribbean and Pacific (ACP) countries will formally launch the process of renegotiating the Lomé Convention, the trade-and-aid agreement which links the two sides but which is due to expire in 2000. The EU wants to move away from the current system of granting trade preferences to ACP countries to a series of regional free trade agreements.

Holiday

Israel.

FT Surveys

European Construction Industry; Review of Telecommunications.

THURSDAY 1

Time for working time

The European Union's working time directive comes into effect in the UK, amid fears among employers that the proposed maximum working week of 48 hours will increase costs, and trade union suspicions that that the provisions will be watered down after lobbying by business.

Open skies issue

EU transport commissioner Neil Kinnock will make a final attempt to persuade transport ministers meeting in Luxembourg to grant him a full mandate to negotiate an "open skies" agreement on air transport between the EU and the US. Several countries have been reluctant to grant the European Commission full negotiating rights on the issue, but Mr Kinnock may launch a legal challenge if ministers continue to block the mandate. Other issues on the agenda include further discussions on rail liberalisation, and the "Eurovignette" system of charges for cargo transport by road.

Hunting question

Britain's National Trust, a charity founded to preserve places of historic interest and natural beauty, holds a council meeting at which it will come

under pressure to reverse a decision taken last year to ban hunting with horse and hound on its land. A scientist whose evidence helped persuade members of the need for a ban has now revised some of his findings.

Motor show

The fragmentation of Europe's new car market into an ever-growing variety of sports-utility vehicles, multi-purpose "people carriers" and sports and sporty cars will be underlined at the Paris *salon*, the international motor show which opens its doors to the public today. The new Alfa-Romeo 166 executive car, the first all-new Maserati coupé for many years and even a mid-engined, high-performance version of Renault's ubiquitous Clio hatchback will be on display against the background of a buoyant west European car market as yet showing no signs of succumbing to fears of global recession.

Holidays

Uzbekistan, Bangladesh, China, Hong Kong, India, Cyprus, Nigeria.

FRIDAY 2

Papal visit

Pope John Paul II visits Croatia to beatify the late Cardinal Alojzije Stepinac, who saved hundreds of Jews from the pro-Nazi Ustashe regime during the second world war. Stepinac, later imprisoned by the communist government, is regarded by many Croats as a martyr and by many Serbs as a Nazi sympathiser. The Pope will meet president Franjo Tudjman and join celebrations of the 1,700th anniversary of Split.

Holiday

China, Hong Kong, India.

FT Survey

World Economy and Finance.

SATURDAY 3

Australian poll

Some 12m Australian voters go to the polls under a compulsory voting system for a new house of representatives, parliament's lower house, and half the senate. Opinion polls have given the opposition Labor party a narrow lead over the conservative Liberal-National coalition of John Howard, prime minister. But the winner is likely to be decided by secondary "preference" votes, and One Nation, the extremist party led by independent parliamentarian Pauline Hanson, could determine the final outcome, even though it has suffered a slide in popularity. The central issues in the five-week campaign have been economic management and tax reform, with a proposed 10 per cent goods and services tax hurting the government's popularity.

G-7 discussions

Finance ministers and central bank governors from the Group of Seven leading industrial nations meet in Washington at the start of the annual World Bank and International Monetary Fund meetings.

Holidays

South Korea, Germany.

SUNDAY 4

Cardoso favourite

Brazilians go to the polls in elections which will decide the presidency, all 27 state governors, the lower house of Congress and one-third of the Senate. President Fernando Henrique Cardoso is the strong favourite to win re-election in the first round of voting. If he does not gain more votes than all the other candidates put together, voting will go to a second round.

Rights development

The Norwegian government is hosting a two-day expert symposium on human rights and development in Oslo, in collaboration with the United Nations Development Programme and the UN High Commissioner for Human Rights. The intention is to identify practical ways of "mainstreaming" human rights in development work. Human rights as defined in international law embrace not only political and civil rights but also economic and cultural rights.

Holidays

Israel, South Korea.

Compiled by Roger Beale
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ECONOMIC DIARY

Other economic news

Monday: The UK's non-EU trade deficit is expected to have deteriorated modestly to £1.0bn in August. The latest trade figures are also forecast to show a global deficit of £1.4bn in July, unchanged from June.
Tuesday: Figures for Japanese industrial production in August are likely to show a 0.8 per cent decline month on month. Output of raw materials may have fallen short of earlier expectations, while processing companies should be firmer.
Wednesday: French unemployment is thought to have fallen 0.3 per cent from July to August. A survey of Japanese industry is likely to show that manufacturers' sentiment has worsened, says Deutsche Bank. Domestic and foreign sales declined in the third quarter.
Friday: US non-farm payroll jobs are expected to have risen a healthy 190,000 in September. Hourly earnings should increase by 0.3 per cent from August. Unemployment may drop slightly with a cyclical decline in continuous claims. Factory orders should be up one per cent.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	France	Sep industrial survey	25	35
Sep 28	UK	Jul global visible trade	-£1.4bn	-£1.4bn
	UK	Aug ex-EU visible trade	-£1.0bn	-£0.9bn
Tue	UK	Aug consumer credit	£1.1bn	£1.1bn
Sep 29	Canada	Aug department store sales**	5.3%	5.9%
	Canada	Aug raw materials price index	0.2%	0.3%
	US	BTM-Schroders Sep 26		-0.2%
	US	Sep consumer confidence	130	133.1
	US	Sep agriculture prices		-1.0%
	Japan	Aug industrial production†	-0.8%	-0.6%
	Japan	Aug shipments†		-0.3%
	Japan	Aug retail sales**	-3.3%	-3.9%
Weds	Japan	Aug construction orders**		-14.3%
Sep 30	Japan	Aug housing starts**	13.2%	-11.3%
	Japan	Aug construction starts**		-10.3%
	France	Aug unemployment rate	11.7%	11.8%
	Italy	Jul EU trade balance	L4.4tn	L1.1tn
	Italy	Aug ex-EU trade balance	L4.2tn	L5.7tn
	Canada	Jul real gross dom' prod factor cost*	0.0%	-0.1%
	US	Sep Chicago purch' managers index †	50.0%	49.3%
	US	Aug new home sales	860k	886k
	US	Aug leading indicators	0.1%	0.4%
	Japan	98 Tankan capital spending	-2.5%	-1.3%
Thur	Japan	Sep automobile sales**		-8.6%
Oct 1	Japan	Sep forex reserves*		0.9%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	UK	Sep Chart' Inst' of Purch' Managers		45.2%
	US	Initial claims Sep 26		292k
	US	State benefits Sep 19		2201k
	US	Sep Nat' Ass' of Purchasing Managers	49.0%	49.4%
	US	Aug construction spending	0.4%	0.4%
	US	M1 week ended Sep 21		$0.6bn
	US	M2 week ended Sep 21		$10.8bn
	US	M3 week ended Sep 21		$7.5bn
	US	Sep domestic auto sales	8.8m	8.4m
	US	Sep domestic light truck sales	6.5m	6.0m
Fri	Japan	Aug unemployment rate	4.1%	4.1%
Oct 2	Japan	Aug job offers seekers ratio	0.49	0.50
	France	Jul producer price index*	-0.2%	-0.3%
	France	Jul producer price index**	-1.1%	-0.7%
	Italy	Aug producer price index**	0.0%	0.3%
	UK	Sep official reserves		$4.0m
	US	Sep nonfarm payrolls	200k	365k
	US	Sep manufacturing payrolls	-10k	95k
	US	Sep hourly earnings	0.3%	0.5%
	US	Sep average workweek	34.6	34.6
	US	Sep unemployment rate	4.5%	4.5%
	US	Aug factory orders	0.8%	-1.2%
	US	Aug factory inventories		0.8%
	US	Sep Michigan Sentiment Final**	100.0	100.4

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy Standard & Poor's MMS.*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 27.09.98 — Pool Prices for Trading on [illegible]

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	9.86	9.34	9.34	0.00
0100	9.36	9.32	9.32	0.00
0130	10.60	8.80	8.80	0.00
0200	10.60	8.80	8.80	0.00
0230	10.60	8.80	8.80	0.00
0300	10.60	8.80	8.80	0.00
0330	10.60	8.80	8.80	0.00
0400	10.60	8.80	8.80	0.00
0430	10.60	7.00	7.00	0.00
0500	10.60	7.00	7.00	0.00
0530	9.36	0.02	0.02	0.00
0600	9.36	0.02	0.02	0.00
0630	9.36	0.02	0.02	0.00
0700	9.35	0.02	0.02	0.00
0730	9.36	0.02	0.02	0.00
0800	9.37	7.00	7.00	0.00
0830	9.37	9.32	9.32	0.00
0900	9.37	9.32	9.32	0.00
0930	12.77	3.41	3.87	1.89
1000	12.77	3.41	3.87	1.89
1030	22.76	10.50	11.05	1.89
1100	22.76	10.77	11.32	1.89
1130	22.76	15.71	16.26	1.89
1200	26.94	15.71	16.26	1.89
1230	61.38	15.71	16.26	1.89
1300	61.38	15.71	16.26	1.89
1330	26.94	15.71	16.26	1.89
1400	15.67	10.77	11.32	1.89
1430	15.67	10.77	11.32	1.89
1500	15.67	10.77	11.32	1.89
1530	15.67	10.77	11.32	1.89
1600	15.67	10.77	11.32	1.89
1630	15.67	10.77	11.32	1.89
1700	15.67	10.77	11.32	1.89
1730	15.67	14.94	15.50	1.89
1800	14.00	14.94	15.50	1.89
1830	13.58	14.94	15.50	1.89
1900	14.00	14.94	15.50	1.89
1930	26.94	14.94	15.50	1.89
2000	26.94	10.77	11.32	1.89
2030	19.91	15.01	15.57	1.89
2100	19.88	21.21	21.77	1.89
2130	23.44	22.87	22.92	1.89
2200	23.44	27.89	28.44	1.89
2230	17.80	15.01	15.57	1.89
2300	14.50	15.01	15.57	1.89
2330	12.60	15.01	15.57	1.89
2400	11.34	10.50	11.06	1.89

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.50/MWh becomes 1.850p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made [illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

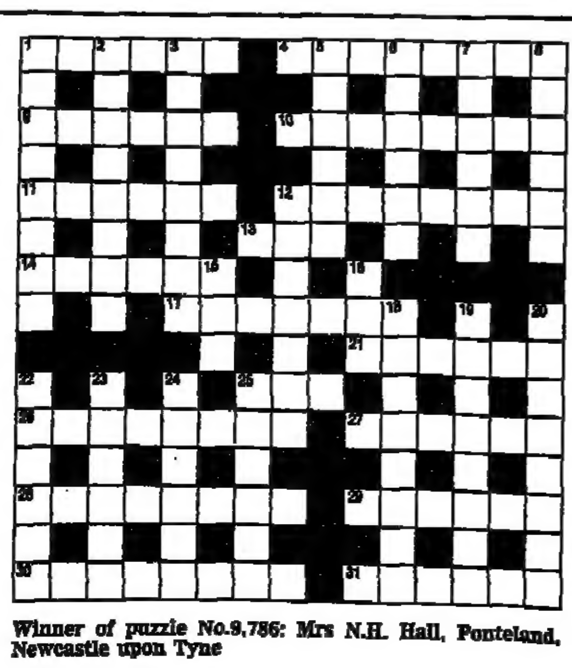
Provisional Price for Trading on 28.09.98 — Pool Prices for Trading on [illegible]

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	11.22	9.32	9.32	0.00
0100	9.36	9.32	9.32	0.00
0130	9.36	9.30	9.30	0.00
0200	9.36	8.80	8.80	0.00
0230	9.36	8.80	8.80	0.00
0300	9.36	8.80	8.80	0.00
0330	9.36	8.80	8.80	0.00
0400	9.36	8.80	8.80	0.00
0430	9.36	8.80	8.80	0.00
0500	9.36	8.80	8.80	0.00
0530	9.35	7.00	7.00	0.00
0600	9.36	7.00	7.00	0.00
0630	9.40	7.00	7.00	0.00
0700	17.51	7.00	7.00	0.00
0730	14.03	7.00	7.00	0.00
0800	28.13	9.34	9.34	0.00
0830	28.14	11.94	12.58	1.80
0900	28.18	12.80	13.25	1.80
0930	25.79	13.61	14.25	1.80
1000	25.83	12.82	13.56	1.80
1030	27.91	13.61	14.25	1.80
1100	27.91	14.94	15.58	1.80
1130	22.83	14.94	15.58	1.80
1200	17.73	14.94	15.58	1.80
1230	21.71	14.94	15.58	1.80
1300	21.66	14.94	15.58	1.80
1330	21.59	13.61	14.25	1.80
1400	21.37	13.61	14.25	1.80
1430	21.36	13.61	14.25	1.80
1500	21.36	13.61	14.25	1.80
1530	21.85	13.61	14.25	1.80
1600	21.57	13.61	14.25	1.80
1630	21.82	13.61	14.25	1.80
1700	30.01	13.61	14.25	1.80
1730	30.00	14.94	15.58	1.80
1800	15.65	20.25	20.90	1.80
1830	29.83	20.25	20.90	1.80
1900	30.11	13.61	14.25	1.80
1930	30.19	13.61	14.25	1.80
2000	30.16	13.61	14.25	1.80
2030	18.29	13.61	14.25	1.80
2100	26.85	21.52	22.16	1.80
2130	26.86	46.57	47.21	1.80
2200	18.56	46.57	47.21	1.80
2230	15.66	21.52	22.16	1.80
2300	15.66	21.09	21.73	1.80
2330	13.36	12.60	13.25	1.80
2400	13.09	13.61	14.25	1.80

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.50/MWh becomes 1.850p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made [illegible]

ACROSS
1 Double over and collapse (4,2)
4 Gloomy start to the music (8)
9 Payment for artist making a comeback (6)
10 Dispose of in haste (8)
11 River shrew (6)
12 The saint not usually regarded as being in doubt (8)
13 She becomes possessive (3)
14 Sound conductor of German songs (6)
17 Business transaction (7)
21 A way to divert people? (6)
25 Social crawler (3)
26 The morning help is easily won over (8)
27 Study some in deep depression (6)
28 Make light of Winnie's duplicity? (4-4)
29 Redial correctly, or get off the line (6)
30 All the same the head makes a regular appearance (8)
31 Confused tot given guidance (6)

DOWN
1 A classmate in precise terms (8)
2 Period of maritime decline (3,5)
3 Got out of bed? (8)
5 Hungry boy – or about to be (6)
6 Cloth that is first choice with relatives (6)
7 Ex-star replaced in crowd scenes (6)
8 It hit a Pacific island badly (6)
12 It may be the height of fashion (7)
15 Theatre curtain material? (3)
16 Stop a boundary (3)
18 Progress to make a capital gain (3,5)
19 Dog, under £25, with long hair behind head (8)
20 Vessel well protected from awfully cold rain (8)
22 Bird in the bull-ring (6)
23 Be in a position again to get some sleep (6)
24 Mother's coming up on a vessel – a Chinese one (6)
25 A student with many grants (6)



Winner of puzzle No.9,786: Mrs N.H. Hall, Ponteland, Newcastle upon Tyne

MONDAY PRIZE CROSSWORD
No.9,798 Set by DANTE

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday October 8, marked Monday Crossword 9,798 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday October 12. Please allow 28 days for delivery of prizes.

Name.....................................

Address.....................................

Solution 9,786

SHERRYTRIFLE
R E A A H L P S
ELATION ABUSIVE
V R M K P K S A
OPTED ASBESTOS
L E R B O L I
VINHOVERDE HEAD
I P L I A F
NOSH ALTERNATOR
G T A S C H E
DIAMONDS EXAMS
O R U O S S C O
OCTAGON PITCHER
R L H N I O E T
EXTRACTORFAN

JOTTER PAD